



**Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City**

ANNUAL AUDIT REPORT

on the

SUBIC BAY METROPOLITAN AUTHORITY

For the Year Ended December 31, 2015

EXECUTIVE SUMMARY

A. Introduction

Sec.13 of Republic Act No. 7227 created the corporate body known as the Subic Bay Metropolitan Authority (SBMA). The SBMA is the operating and implementing arm of the Government of the Philippines in developing the 67,000-hectare area of Subic Bay Freeport (SBF) into a self-sustaining industrial, commercial, financial, and investment and academe center to generate, among others, employment opportunities in and around the Zone.

The SBMA plays a key role in the national government's efforts to achieve international competitiveness and provide for its integration with the global economy.

To accomplish this, it shall embark to manage and develop the ship repair and shipbuilding facilities, container port, as well as the oil storage and refueling stations; attract and maintain local and foreign investments to promote the economic and social development of the country primarily in Central Luzon; establish and regulate the operation and maintenance of utilities, services and infrastructure; operate directly and indirectly tourism-related activities; and protect the Freeport's forests.

We conducted our audit in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided a reasonable basis for the audit results. The audit covered the examination, on test basis, of the accounts and financial transactions of the SBMA for the year ending December 31, 2015. The audit was conducted to (a) ascertain the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

B. Financial Highlights

The financial position and results of operations for CYs 2015 and 2014 are shown below:

(In Thousands of Pesos)

| Financial Position | 2015 | 2014 | Increase/ (Decrease) | |
|-----------------------|------------|------------|----------------------|----------|
| | | | Amount | % |
| Total Assets | 29,235,554 | 28,610,601 | 624,953 | 2.18% |
| Total Liabilities | 11,190,156 | 10,895,918 | 294,238 | 2.70% |
| Stockholders' Equity | 18,045,398 | 17,714,683 | 330,715 | 1.87% |
| Results of Operations | 2015 | 2014 | Increase/ (Decrease) | |
| | | | Amount | % |
| Total Revenues | 2,745,148 | 3,286,004 | (540,856) | (16.46%) |
| Total Expenses | 1,979,073 | 1,729,532 | 249,541 | 14.43% |
| Total Net Income | 766,075 | 1,556,472 | (790,397) | (50.78%) |

C. Independent Auditor's Report

We rendered a qualified opinion on the fairness of presentation of the financial statements of the Subic Bay Metropolitan Authority as of December 31, 2015 owing to (a) net overstatement of Inventory account by ₱88,815,332.04 due to (i) unrecorded Spare Parts Inventory of ₱5,337,791.86; (ii) inclusion in the balance of non-existing stocks of ₱2,361,825.11; and (iii) unaccounted inventories of ₱91,791,298.79; (b) overstatement of Property, Plant and Equipment accounts by ₱1,095,575,641.60 due to the inclusion in the balances of the costs of the demolished buildings and other structures; (c) net understatement of Accounts Payable account by ₱10,845,512.96 resulting from (i) non-recognition of payables of ₱16,745,047.72; and (ii) late submission of disbursement vouchers (DVs) totalling ₱5,899,533.86 for payments already made to creditors; and (d) overstatement of Working Animals account by ₱1,021,778.00 due to inclusion in the balance of the costs of the 19 dead animals.

For the above deficiencies, we recommended that Accountant:

- (a) For the overstated Inventory account, (i) investigate to ascertain the causes of the unrecorded spare parts, non-existing and unaccounted inventories of ₱5,337,791.86, ₱2,361,825.11 and ₱91,791,298.79, respectively, then make the proper adjustments thereof; and (ii) and Property Officer conduct reconciliation of inventory records on a regular periodic basis;
- (b) For the overstated Property, Plant and Equipment account, after receiving the reports on the demolished buildings and other structures, Inventory and Inspection Report and Auction Sale, effect the necessary adjustments in the books;
- (c) For the understated Accounts Payable account, (i) coordinate with the 13 creditors whose accounts differ with those of the SBMA subsidiary ledgers (SLs); and (ii) reconcile the net understatement of ₱10,845,512.96 in the balances of creditors accounts per creditors' records and SBMA SLs and effect necessary adjustments thereon; and
- (d) For the overstated Working Animals account, book-up the costs of the 19 dead animals

D. Summary of Other Significant Observations and Recommendations

Summarized below are the significant audit observations noted during the audit and the corresponding recommendations.

1. The cash balances of ₱2,759,175,878.81 as of December 31, 2015 were understated by net amount of ₱355,200.82 due to unrecorded (a) collections of

₱8,283,618.67; (b) disbursements of ₱7,438,061.63; and (c) adjustments of ₱490,356.22. **(Observation No. 1)**

We recommended that the (a) Accountant (i) initiate action to facilitate the identification of payors making payments thru telegraphic transfers; (ii) recognize the unbooked collections and disbursements immediately upon identification of the concerned debtors and creditors, respectively; and (ii) determine the status of the long outstanding credit memo and adjust balances; and (b) Treasurer submits disbursement vouchers (DVs) and their support documents on time to the Accounting Department for recording of transactions.

2. Of the Accounts Receivable-Trade balance of ₱4,106,523,069.14 as of December 31, 2015, ₱3,494,758,729.88 or 85.10% were doubtful since their existence and correctness were not established. Moreover, the reported receivables of ₱489,327,497.45 or 11.92% of the total trade receivables which had been in the books since CY 2013 with aged three to four years or more which remained non-moving. **(Observation No. 2)**

We recommended that the (a) Accountant (i) take serious efforts to ascertain the validity of the receivables; and (ii) review the long outstanding non-moving accounts for proper disposition; and (b) Database Administrator update the data base for locators in the Integrated Financial Management System (IFMS) particularly on their addresses and status of their accounts.

3. There were lapses in the grant and liquidation of cash advances in CY 2015 such as (a) granting of cash advances of ₱14,130,375.75 to SBMA officers who were not duly designated as disbursing officers; and (b) inadequate documentation of liquidations totaling ₱5,543,100.00 contrary to COA Circular Nos. 97-002 and 2012-001 dated February 10, 1997 and June 14, 2012, respectively, and exposed government funds to risks of misappropriation or loss and also cast doubt on their regularity. **(Observation No. 3)**

We recommended that the Accountant refrain from (a) granting cash advances to officers who are not duly designated as disbursing officers; and (b) processing of grant and liquidation of cash advances which are not adequately documented.

4. The reported balances of Property Plant and Equipment (PPE) accounts as of December 31, 2015 with net book value of ₱24,583,771,933.78 were unreliable due to (a) doubtful existence and valuation of PPE accounts amounting to ₱23,472,295,260.25; (b) incomplete report on the physical count of assets worth ₱2,469,739,025.93; and (c) discrepancy in the total land area of the agency's real estate property per accounting and property records by 1,013.22 hectares of undetermined amount. **(Observation No. 5)**

We recommended that the (a) Head of the Land and Asset Management Department (LAMDA) (i) furnish the Accounting Department with copies of reports on the demolished buildings, facilities and other structures; (ii) exert effort to follow-up the request from the DENR on the actual result of the survey made for the total land area for business use by

the SBMA as basis of adjustments of the accounting records; and (iii) provide the Accounting Department the assessed value of the Land Improvements, Buildings and Other Structures; (b) Head of Procurement and Property Management Department (PPMD) fast track and complete the inventory of PPE and submit a report thereon the Accounting Department; (c) Heads of LAMD and PPMD furnish the Accounting Department with copies of records of disposal such as Inventory and Inspection Report and auction sale to effect necessary book adjustments for the demolished buildings and other structures; and (d) Heads of PPMD and LAMD and the Accountant reconcile their records on PPE accounts.

5. The balance of Working Animals account as of year-end was unreliable due to the non-inclusion of the values of nine cavalry horses with no appraised values. (*Observation No. 6*)

We recommended that the (a) Veterinary Consultant provide the Accounting Office with the appraised value of the cavalry offspring; (b) concerned Accountable Officers file their request for relief with the COA; and (c) Accountant book-up the costs of the nine cavalry horses at their appraised value after receiving the appraisal request from the Veterinary Consultant.

6. Copies of contracts together with the documents forming part thereof for projects costing at least ₱35,591,608.33 were not submitted to the Audit Team as of December 31, 2015 contrary to COA Circular No. 2009-001 dated February 12, 2009 which resulted in the delayed audit action and identification and correction of errors therefrom. (*Observation No. 8*)

We recommended that the Property Officer furnish the Audit Team copies of contracts, among others, documents forming part thereof within the period required by COA Circular 2009-001.

7. The SBMA failed to comply with the laws and regulations on planning, budgeting, implementation of programs, activities and projects (PAPs) and the preparation of accomplishment report on Gender and Development (GAD). (*Observation No. 9*)

We recommended that the (a) Chairman of SBMA allocate complete funding and include GAD in the strategic planning to facilitate full attainment of objectives in the pursuit of gender equality and women's empowerment within the context of the agency's mandates; (b) SBMA-GAD Focal Point (i) exercise careful planning in identifying priority gender-issues, setting realizable targets, and designing workable activities towards achieving the set targets and be cautious in preparing GAD report to include necessary and exclude unnecessary expenditures in the conduct of GAD PAPs; (ii) carry-out the plan to its fullest extent by utilizing the budget allotted to ensure the full implementation of the GAD Plan; (iii) exercise care in the preparation of AR for accurate and precise reporting on GAD-related PAPs; and (iv) seek approval from Philippine Commission on Women (PCW) on the additional activities to be implemented to ensure

that the GAD budget is expended only for duly approved PAPs; (c) Accountant submit the necessary supporting documents and satisfactory explanation to support the propriety, exigency and authority of the expenses incurred/paid for GAD-related activities.

8. Due to lack of plans to mitigate the risks of loss or reduced clientele, the SBMA apparently neglected the operation and maintenance of the Subic Bay International Airport (SBIA) resulting in (a) non-functional organizational structure of SBIA; (b) idle/obsolete/unmaintained equipment and facilities costing of at least ₱54,667,827.65 representing 86.63% of the overall airport equipment; and (c) loss of income opportunity caused by lack of comprehensive tourism marketing plan as evidenced by the decrease in passenger and aircraft movements by 82.78% and 44.31% of performance levels, respectively, in CYs 2008 to 2015. (*Observation No. 13*)

We recommended that Chairman and Administrator (a) review the airport's labor force by carefully regarding the current manpower situation as well as goals that each has, effecting scrutiny on details, number of employees with clear roles in department, long term trend consideration for changes, examination of work load in connection with projected modification and budget requirements; (b) assess the performance of the existing airport equipment, analyze their costs and benefits to determine whether to repair or replace them, whichever is more advantageous; and (c) carry-out well coordinate efforts with the concerned departments contributing to the implementation of the marketing strategy for the airport and clearly distinguished the scope and limitations of their roles in advancing the common goal of the agency and that of the airport.

E. Summary of Total Suspensions, Disallowances and Charges at year-end

Audit disallowance amounting to ₱15,451,322.22 remained unsettled as of year-end contrary to COA Circular No. 2009-006 dated September 15, 2009. Of the said amount, ₱3,987,789.56 are still under appeal with the COA Regional Office No. III.

F. Status of Implementation of Prior Years' Unimplemented Audit Recommendations

Out of 101 audit recommendations embodied in the Annual Audit Report (AARs) for CYs 2010 to 2014, 16 were fully implemented, 84 were partially implemented and one was not implemented.

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PART I— AUDITED FINANCIAL STATEMENTS



Republic of the Philippines
COMMISSION ON AUDIT

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors

Subic Bay Metropolitan Authority
Subic Bay Freeport Zone, Olongapo City

We have audited the accompanying financial statements of the Subic Bay Metropolitan Authority which comprise the statement of financial position as of December 31, 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with State accounting principles, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Bases for Qualified Opinion

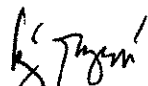
As discussed in Part II of this report, the (a) Inventory account was overstated by net amount of ₱88,815,332.04 due to (i) unrecorded Spare Parts Inventory of ₱5,337,791.86; (ii) inclusion in the balance of non-existing stocks of ₱2,361,825.11; and (iii) unaccounted inventories of ₱91,791,298.79; (b) Property, Plant and Equipment account balances were overstated by ₱1,095,575,641.60 due to the inclusion in the balances the costs of the demolished buildings and other structures; (c) Accounts Payable account was understated by net amount of ₱10,845,512.96 resulting from (i) non-recognition of payables of ₱16,745,047.12; and (ii) late submission of Disbursement Vouchers (DVs) totaling ₱5,899,533.86 for payments already made to creditors; and (d) Working Animals account was overstated by ₱1,021,778.00 due to inclusion in the balance the value of the 19 dead animals.

Qualified Opinion

In our opinion, except for the effects and possible effects of the matters described in the *Bases for Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the Subic Bay Metropolitan Authority as of December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with State accounting principles.

COMMISSION ON AUDIT

By:


VIRGINIA A. YACAT
OIC-Supervising Auditor

June 24, 2016



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Subic Bay Metropolitan Authority is responsible for all information and representations contained in the accompanying Statement of Financial Position as of December 31, 2015 and the related Statement of Financial Performance, Statement of Changes in Owner's Equity and Statement of Cash Flow for the year then ended. The financial statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities recognized.


ANTONIETTA P. SANQUI

Deputy Administrator for Finance


ROBERTO V. GARCIA

Chairman/Head of the Agency

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF FINANCIAL POSITION
December 31, 2015
(With Comparative Figures for December 31, 2014)
In Thousands of Pesos

| | 2015 | 2014 |
|--------------------------------------------------|-------------------|-------------------|
| ASSETS | | |
| Current Assets | | |
| Cash (Note 4) | 2,759,176 | 1,996,451 |
| Receivables (Note 5) | 219,107 | 247,631 |
| Inventories (Note 6) | 107,844 | 110,489 |
| Miscellaneous Assets (Note 7) | 12,596 | 10,421 |
| Total Current Assets | 3,098,723 | 2,364,992 |
| Non-Current Assets | | |
| Investments (Note 8) | 842,126 | 603,292 |
| Receivables (Note 5) | 260,637 | 305,187 |
| Property, Plant and Equipment (Note 9) | 24,583,772 | 24,975,397 |
| Other Assets (Note 10) | 450,296 | 361,733 |
| Total Non-Current Assets | 26,136,831 | 26,245,609 |
| TOTAL ASSETS | 29,235,554 | 28,610,601 |
| LIABILITIES AND GOVERNMENT EQUITY | | |
| Current Liabilities | | |
| Payables & Accrued Expense (Note 11) | 195,072 | 168,978 |
| Loans Payable (Note 12) | 325,907 | 302,712 |
| Accrued Interest | 18,853 | 20,120 |
| Deferred Credits to Income (Note 13) | 49,401 | 53,938 |
| Security Deposits & Advance Rental (Note 14) | 222,381 | 202,912 |
| Trust Liabilities (Note 15) | 384,310 | 351,940 |
| Total Current Liabilities | 1,195,924 | 1,100,600 |
| Non-Current Liabilities | | |
| Other Payables (Note 11) | 170,418 | 159,455 |
| Loans Payable - net of current portion (Note 12) | 6,321,614 | 6,185,160 |
| Deferred Credits to Income (Note 13) | 2,981,549 | 2,951,958 |
| Security Deposits (Note 14) | 520,651 | 498,745 |
| Total Non-Current Liabilities | 9,994,232 | 9,795,318 |
| Total Liabilities | 11,190,156 | 10,895,918 |
| Stockholders' Equity | 18,045,398 | 17,714,683 |
| TOTAL LIABILITIES AND GOVERNMENT EQUITY | 29,235,554 | 28,610,601 |

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF FINANCIAL PERFORMANCE
For the Year Ended December 31, 2015
(With Comparative Figures for December 31, 2014)
In Thousands of Pesos

| | 2015 | 2014 |
|---------------------------------------------------|------------------|------------------|
| REVENUES | | |
| Leases | 1,342,240 | 1,269,238 |
| Port Services | 933,583 | 746,718 |
| Tourism Services | 12,631 | 14,238 |
| Gain on Revaluation (Note 20) | (74,610) | 774,856 |
| Other Operating Income (Note 21) | 531,304 | 480,954 |
| Total Revenues | 2,745,148 | 3,286,004 |
| OPERATING EXPENSES | | |
| Depreciation | 453,939 | 457,008 |
| Bad Debts Expense | 305,132 | 239,247 |
| Salaries and Benefits | 518,169 | 412,604 |
| Power and Water | 84,342 | 89,794 |
| Supplies, Materials and Fuels | 40,185 | 41,066 |
| Loss on Revaluation (Note 20) | - | - |
| Others (Note 22) | 491,384 | 413,674 |
| Total Operating Expenses Before Income Tax | 1,893,151 | 1,653,393 |
| Provision for Income Tax | 85,922 | 76,139 |
| Total Operating Expenses After Income Tax | 1,979,073 | 1,729,532 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 766,075 | 1,556,472 |

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF CHANGES IN GOVERNMENT EQUITY
For the Year Ended December 31, 2015
(With comparative figures as of December 31, 2014)
In Thousands of Pesos

| | 2015 | 2014 |
|-------------------------------------------------|--------------------|--------------------|
| Paid-in Capital (Note 16) | | |
| Balance at beginning of year | 19,942,815 | 19,942,815 |
| Additions/(deductions) | - | - |
| Balance at end of year | 19,942,815 | 19,942,815 |
| Appraisal Surplus (Note 17) | | |
| Balance at beginning of year | 31,767 | 31,767 |
| Partial realization of Appraisal Surplus | - | - |
| Balance at end of year | 31,767 | 31,767 |
| Invested Capital-Held in Trust (Note 18) | | |
| Balance at beginning of year | 307 | 307 |
| Additions/(deductions) | - | - |
| Balance at end of year | 307 | 307 |
| Donated Capital (Note 19) | | |
| Balance at beginning of year | 37,618 | 37,618 |
| Additions/(deductions) | - | - |
| Balance at end of year | 37,618 | 37,618 |
| Retained Earnings | | |
| Balance at beginning of year | (2,297,824) | (3,037,617) |
| Net income (loss) for the year | 766,075 | 1,556,472 |
| Dividend Paid to the National Government | (437,753) | (185,882) |
| Correction of fundamental errors | 2,393 | (630,797) |
| Balance at end of year | (1,967,109) | (2,297,824) |
| TOTAL GOVERNMENT EQUITY | 18,045,398 | 17,714,683 |

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY
STATEMENT OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014
In Thousands of Pesos

| | 2015 | 2014 |
|---------------------------------------------------------|------------------|------------------|
| Cash Flows From Operating Activities: | | |
| Cash received from customers | 1,192,654 | 987,068 |
| Sale of Unserviceable Properties | - | - |
| Cash received in payment of customers' account | 1,129,272 | 1,079,145 |
| Cash received from customers for unearned income | 403,954 | 385,681 |
| Interest received | 9,377 | (604) |
| Customers' security deposits | 12,106 | 12,207 |
| Trust fund received non-customers | 377,027 | 516,021 |
| Cash paid to employees and suppliers | (1,098,779) | (895,923) |
| Refund of customers' security deposits | (97) | (4,166) |
| Cash paid from non-customers' trust fund | (263,057) | (380,633) |
| Advances - Payment of FSC's Manpower Reduction Program | - | - |
| Advances to Contractors | (13,908) | (2,447) |
| Cash paid for financing charges | (132,657) | (157,868) |
| Net cash provided by operating activities | 1,615,892 | 1,538,481 |
| Cash Flows From Investing Activities: | | |
| Investment in Bonds | - | 182,780 |
| Investment on Dollar Time Deposit - Sinking Fund | - | - |
| Investment in Dollar Bond /TD(LBP) | (215,666) | (357,760) |
| Joint Venture - Subic Water | 16,000 | 12,947 |
| Port Dev. - JBIC II & locally funded projects | - | (1,115) |
| Capital expenditures - Local | (35,954) | (21,995) |
| Net cash used in investing activities | (235,620) | (185,143) |
| Cash Flows From Financing Activities: | | |
| Loan Proceeds - LandBank | 105,884 | 794,441 |
| Principal loan repayments - WB1 | - | - |
| Gain on repayment - WB1 | - | - |
| Principal loan repayments - WB2 | (98,405) | (90,970) |
| Loss on repayment - WB2 | (266) | 3,922 |
| Principal loan repayments - JBIC 1 | (14,693) | (16,674) |
| Loss on repayment - JBIC 1 | (32) | 286 |
| Principal loan repayments - JBIC 2 | (190,869) | (222,004) |
| Loss on repayment - JBIC 2 | (5,544) | (1,052) |
| Principal loan repayments - Eximbank | - | (426,999) |
| Loss on repayment - Eximbank | - | (8,899) |
| Repayment of Loan - LBP | - | - |
| Investment in Dollar Bond (LBP) | - | - |
| Resticted Cash (\$LBP)- SBMA Debt Service Account | (13,954) | (65,847) |
| Payment of Dividend | (437,753) | (185,882) |
| DBP- Trust Fund Various | 11,506 | (82,309) |
| LBP- Trust Fund Varrious | (92,207) | (178,751) |
| Placement of Dollar Time Deposit - Sinking fund | - | - |
| Net cash used in financing activities | (736,333) | (480,738) |
| Effect of Exchange Rate Changes on Cash | 118,786 | (28,948) |
| Net (Decrease) Increase in Cash | 762,725 | 843,652 |
| Cash at Beginning of Year | 1,996,451 | 1,152,799 |
| Cash and Cash Equivalents at the End of the Year | 2,759,176 | 1,996,451 |

See accompanying Notes to Financial Statements.

SUBIC BAY METROPOLITAN AUTHORITY

Notes to Financial Statements

(All amounts are in Thousands of Philippine Peso except otherwise stated)

1. PROFILE

The Administration

Sec.13 of Republic Act No. 7227 created the corporate body known as the Subic Bay Metropolitan Authority (SBMA). The SBMA is the operating and implementing arm of the Government of the Philippines in developing the 67,000-hectare area of Subic Bay Freeport (SBF) into a self-sustaining industrial, commercial, financial, and investment and academe center to generate, among others, employment opportunities in and around the Zone.

On March 13, 1992, the Philippine Congress passed Republic Act 7227, known as the Bases Conversion and Development Act of 1992, creating the Subic Bay Freeport in anticipation of the pullout of the US naval base facilities. Section 13 of RA 7227 created the Subic Bay Metropolitan Authority (SBMA) and with free port incentives, an amendment granting tax and duty-free privileges and incentives was inserted during the bicameral committee hearings.

The area for development comprises of 13,600 hectares of leasable land (based on the actual survey made by the DENR) and 53,852 hectares of protected area covering the Subic Bay Freeport (SBF) or what was the former US Naval facility in Subic Bay into a self-sustaining tourism, industrial, commercial, financial, and investment center to generate employment opportunities.

Agency Roles

The SBMA plays a key role in the national government's efforts to achieve international competitiveness and provide for its integration with the global economy.

To accomplish this, it shall embark to manage and develop the ship repair and shipbuilding facilities, container port, as well as the oil storage and refueling stations; attract and maintain local and foreign investments to promote the economic and social development of the country primarily in Central Luzon; establish and regulate the operation and maintenance of utilities, services and infrastructure; operate directly and indirectly tourism-related activities; and protect the Freeport's forests.

SBMA Vision

By 2030, the Greater Subic Bay Area shall be a (the) premier Freeport Zone in Asia

In line with this goal and vision, SBMA shall undertake to create a business environment that will make us the most competitive Freeport Zone in the country and within the Asian region. To accomplish this, it shall embark on the following:

1. **To make way for a leading and green port.** With the depth of the bay, clean air and water, and biodiversity as its advantage, SBMA aims to be the busiest port in the Philippines and Asia by moving cargoes and tourists by the sea. It shall develop a super yacht haven and a cruise ship destination.
2. **To create a major tourist destination.** We envision Subic as the theme park capital of the country, a venue for major sports events, luxury destinations for casinos and shopping, and medical tourism.
3. **To continue to develop the most protected environment in Southeast Asia.** Residential areas are envisioned to rise in the heart of nature for local and international elite offering high class modern living and investments. Consequently, a bigger per capita income for Freeport constituents is foreseen that will produce more purchasing power that will uplift their lifestyle.

Today, the SBMA continues to attract local and foreign investments for the socio-economic benefit of nearby local communities, as well as Central Luzon and the rest of the country; to sustain an investment-friendly and stable business environment and assist investors in setting up their businesses by providing quality services; to pursue the development of the Freeport not only as an investment site but also as a tourism destination; and to promote environmental protection amidst rapid development.

SBMA Mission

To generate broad-based business and job opportunities by offering unique maritime, eco-tourism and high-tech industrial services and infrastructure to the world as a showcase of Philippine economic progress and development.

2. BASIS OF PREPARATION AND STATEMENT OF COMPLIANCE

Basis of Preparation

The financial statements have been prepared on historical cost convention

Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires SBMA to exercise its judgement in the process of applying its accounting policies.

Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that SBMA's financial statements therefore present the financial position and results fairly.

Adoption of New Government Accounting System (NGAS) Revised Chart of Accounts

The accompanying financial statements were prepared using National Government Accounting System (NGAS) Revised Chart of Accounts per COA Circular No. 2008-01 dated January 29, 2008 superseding COA Circular Nos. 2003-01, 2004-02 and 2004-008 dated June 17, 2003, April 29, 2004 and September 20, 2004, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits, other short-term highly liquid investments with original maturities of one year or less.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, receivables are reported net of allowance for bad debts. A provision for impairment (allowance for doubtful accounts) is established when there is objective evidence that SBMA will not be able to collect all amounts to be received. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount to be received is impaired.

The Allowance for Doubtful Accounts is established based at certain percentage that considers the age of Accounts Receivable. As approved per Board Resolution No. 14-04-5063 issued on the 22nd day of May 2014, "Revised Policy on Allowance for Doubtful Accounts", the following table is used as a basis in determining the Allowance for Doubtful Accounts.

Revised Policy on Allowance for Doubtful Accounts is as follows:

| Age of Accounts Receivable | Percentage of Allowance |
|-----------------------------------|--------------------------------|
| 1-30 days | 0% |
| 31-60 days | 5% |
| 61-90 days | 10% |
| 91-120 days | 15% |
| 121-150 days | 20% |
| 151-180 days | 30% |
| 181 days to 1 year | 40% |
| Over 1 year to 2 years | 50% |
| Over 2 years to 3 years | 65% |
| Over 3 years to 4 years | 80% |

| Age of Accounts Receivable | Percentage of Allowance |
|-----------------------------------|--------------------------------|
| Over 5 years | 100% |

Bond Investment

Straight line method is being adopted in amortizing bond premium.

Inventories

Inventories are stated at cost and issuances are recorded using the moving-average method. The inventories stated in the financial statements are items held for use in the operation of the agency.

Investments

a. Subsidiaries

Subsidiaries are all entities over which SBMA has the power to govern the financial and operating policies generally accompanying a shareholding of an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies, and are consolidated.

b. Associates

An associate is an entity, including an unincorporated entity such as a partnership, over which SBMA has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The equity method is used in accounting for investments in common stock of subsidiaries which are controlled, directly or indirectly, by the investor; and investees where the investment in voting common stock gives the investor the ability to exercise significant influence over the operating and financial policies of an investee even though the investor holds 50% or less of the voting stock.

Percentages of ownership in investments in shares of common stock of the following subsidiary and associates are as follows:

| | Percentage of Ownership |
|------------------------------|--------------------------------|
| Freeport Service Corporation | 100.00 |
| Subic Techno-park | 49.99 |
| SBDMC | 48.60 |
| Subic Water | 20.00 |
| BCDA and CDC-SCADC | 33.30 |
| Subic Bay Yacht Club | 0.37 |

Investments in shares of common stocks of Freeport Service Corporation (FSC) are accounted for under the cost method. Adoption of the equity method of accounting was

deferred since their records were destroyed by fire last January 2004. Also, the deferral of the use of equity method of accounting was concurred by the Commission on Audit pending completion of audit of the 2003 financial transactions and the resolution of the qualification in the audit opinion of FSC's 2002 financial statements because of the wide disparities between the gross profit rates of FSC's business units with the actual gross profit rates of the services being rendered. The Commission gave an adverse opinion on the financial statements of FSC for the years that followed rendering the financial statements unreliable.

Although SBMA is able to exercise significant influence over its investments in SBDMC and SCADC, the cost method is being adopted in accounting for the said investments. Investment in SBDMC is accounted under the cost method pending resolution of issues on the proper accounting of transactions affecting both SBMA and SBDMC concerning the ICDF loan. In our inquiry with the SCAD council, the SCADC is still non-operational; a council called SCAD council is managing the pre operational stage of the SCADC. No Financial Reports for the SCADC is available, thus, pending their actual operation, the cost method of accounting is used for the said investment.

The investments in shares of common stocks of STEP and Subic Water are accounted under the equity method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its acquisition cost and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions and major improvements are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed using the Straight-Line Method that is, Asset Cost less Estimated Residual/ Salvage Value over the estimated useful life of the asset. The estimated useful life of the asset was based on COA Circular 2003-007.

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is included in the income statement for the period.

Revenue and Expense Recognition

The modified accrual basis of accounting for income and expenses is being adopted. Penalty on past due accounts and contested accounts receivable are taken up as income upon collection.

Revenues are derived mainly from leasing of land and buildings, seaport and airport operation, tourism, and from various services being rendered by the agency to attend to the needs of the locators, residents and other parties in their conduct of business inside

the Freeport like medical services, equipment, furniture and fixtures rentals, PPMD services, regulatory services etc.

Foreign Currency Transactions

The peso equivalent of dollar denominated transactions is booked at the Philippine Dealing System (PDS) reference rate at transaction date. Any difference in exchange rate between two related transactions for operations is charged to profit or loss on foreign exchange while differences in exchange rate on transactions pertaining to capital outlays is included in the cost of the asset up to the amount of lower of replacement cost and the amount recoverable from the use or sale of the asset. All foreign currency monetary items (Cash, Account Receivable, Loan Payables, and Security Deposit) are revalued at the closing rate at the end of the month.

4. CASH

This account consists of the following:

| | 2015 | 2014 |
|--------------------------------|------------------|------------------|
| Cash in Bank- Foreign Currency | 2,136,791 | 1,416,850 |
| Cash in Bank- Local Currency | 614,375 | 572,570 |
| Cash on Hand- Foreign Currency | 296 | 418 |
| Cash on Hand- Local Currency | 7,711 | 6,610 |
| Cash Disbursing Officers | 3 | 3 |
| | 2,759,176 | 1,996,451 |

The depository banks of the SBMA are Land Bank of the Philippines (LBP) and Development Bank of the Philippines (DBP).

5. RECEIVABLES

This account consists of the following:

| | 2015 | 2014 |
|---------------------------------------|----------------|----------------|
| Current | | |
| Trade | | |
| Locator | 264,389 | 293,810 |
| Less: Allowance for Doubtful Accounts | 66,141 | 64,479 |
| Net Realizable Value - Locator | 198,248 | 229,330 |
| Residential | 17,159 | 14,911 |
| Less: Allowance for Doubtful Accounts | 4,244 | 2,715 |
| Net Realizable Value - Housing | 12,914 | 12,196 |
| Equitable Card Net Inc. | 491 | 240 |
| Total Trade - Current | 211,653 | 241,765 |
| Add: Non-Trade | 7,454 | 5,866 |
| Total Current Receivables | 219,107 | 247,631 |

| | 2015 | 2014 |
|---------------------------------------|----------------|----------------|
| Non-Current | | |
| Trade | | |
| Locator | 3,604,505 | 3,377,956 |
| Less: Allowance for Doubtful Accounts | 3,375,651 | 3,096,488 |
| Net Realizable Value - Locator | 228,854 | 281,468 |
| Residential | 219,980 | 211,281 |
| Less: Allowance for Doubtful Accounts | 213,312 | 205,413 |
| Net Realizable Value - Housing | 6,668 | 5,868 |
| Total Trade - Non-Current | 235,522 | 287,336 |
| Non-Trade | 25,115 | 17,851 |
| Total Non-Current Receivables | 260,637 | 305,187 |

Non-Current Trade Receivable includes the Receivable from the former SBMA Treasurer for the cash (₱322,296.18 and \$25,315.67) which were stolen in a robbery that occurred in the Treasury Department in November 2005.

Trade Receivables with age 360 days and below are classified as *Current Trade Receivables* while those with age over one (1) year are reported under *Non-Current Trade Receivables*.

Non Trade Current Receivables includes Due from BIR, DBM for procurement, Due from GOCC-GSIS/SSS/PAG-IBIG/PHIC, Advances Officers and Employees and Receivables Treasurer while *Non Trade Non-Current Receivables* includes Interest Receivables from Time Deposits, Bonds, Receivables from NGO/PO's and Receivables from Officers, Employees and former Board of Directors.

The penalty on past due accounts are being recorded as income upon collection.

Following the revision in determining the Allowance for Doubtful Accounts as per revised policy under SBMA Board Resolution No. 14-04-5063 issued on May 22, 2014, the reporting of Accounts Receivable was changed from net of Allowance for Doubtful Accounts and Accounts Receivable from Unearned Revenue to net of Allowance for Doubtful Accounts only.

6. INVENTORIES

This account consists of the following:

| | 2015 | 2014 |
|---------------------------------|--------|--------|
| Supplies and Materials | 34,086 | 35,314 |
| Accountable Forms | 793 | 910 |
| Medical and Laboratory Supplies | 2,236 | 2,168 |
| Gasoline, Oil and Lubricants | 21,487 | 21,714 |
| Spare Parts | 45,984 | 46,815 |
| Construction Materials | 212 | 523 |

| | 2015 | 2014 |
|----------------------------------|----------------|----------------|
| Other Inventory Items | 2,360 | 2,360 |
| Foreclosed/ Garnished Properties | 686 | 685 |
| | 107,844 | 110,489 |

The Inventory which includes Un-reconciled Inventory account amounting to P67.8 million and Inventories for Reconciliation of P24.8 million were reclassified per Commission on Audit recommendation with COA-SAOM 2012-004 (2011) under JGL 12-02-0327 and JGL 12-02-331 respectively. Efforts are being made by various departments to determine the reasonable amount of un-reconciled inventory for probable write-off of non- existing inventory items which are booked under the said accounts. Approval for write off shall be requested from the Commission on Audit upon completion of the actual inventory of existing items to document the unaccounted inventories.

7. MISCELLANEOUS ASSETS

This account consists of the following:

| | 2015 | 2014 |
|-------------------------------------------|---------------|---------------|
| Prepayments | 2,926 | 4,057 |
| Bill/ Guarantee Deposit to Subic Enerzone | 5,235 | 3,676 |
| Advances to Contractors | 4,435 | 2,688 |
| | 12,596 | 10,421 |

Prepayments include prepaid expenses for insurance, licenses, subscriptions and registrations that are subject to regular monthly amortization as expense when incurred.

Guarantee deposits made to Subic Enerzone to guaranty installation of transformers, power lines and power accounts of SBMA.

The Advances to Contractors are for project mobilization or as required in the contract. These amounts are for recoupment against their claims to SBMA for the succeeding periods.

8. LONG-TERM INVESTMENTS

This account consists of equity Investment of SBMA on the following Subic Bay Freeport registered companies:

| | 2015 | 2014 |
|--------------------------------------|----------------|----------------|
| Freeport Service Corporation | 5,999 | 5,999 |
| Subic Technopark | 28,836 | 24,225 |
| Subic Bay Development and Mgt. Corp. | 13,008 | 13,007 |
| Joint Venture - Subic Water | 202,174 | 183,618 |
| BCDA and CDC - SCADC | 2,083 | 2,083 |
| Subic Bay Yacht Club (net) | 6,600 | 6,600 |
| Subtotal | 258,700 | 235,532 |

| | 2015 | 2014 |
|-------------------------------|----------------|----------------|
| Investment in LBP | | |
| Certificate of Peso Time Dep. | 10,000 | 10,000 |
| LBP SBMA Dollar TD Acct. | 573,426 | 357,760 |
| Total | 842,126 | 603,292 |

The winding up of the Freeport Service Corporation (FSC) corporate affairs started in August 2010 and its entire operation was dormant since September 26, 2010. All FSC employees were retrenched and paid corresponding separation pays. At present, all FSC managed properties and facilities were turned over and operated to/by SBMA. SBMA likewise took over FSC's current sub lessees and directly collects the sublease rentals as payment of FSC's unpaid obligations to SBMA until Sept. 30, 2012. Beginning Oct. 1, 2012, all of FSC's sub lessees were transferred to SBMA as direct lessees. FSC's movable properties were also turned over to SBMA for safekeeping and proper disposition.

9. PROPERTY AND EQUIPMENTS

This account consists of the following:

| | Land & Land Improvements | Building & Building Structures | Furniture & Other Equipment | Total |
|---------------------------------------------|--------------------------|--------------------------------|-----------------------------|-------------------|
| At December 31, 2013 | | | | |
| Cost | 18,883,402 | 19,554,482 | 2,423,699 | 40,861,583 |
| Construction in Progress | 13,887 | 2,403 | - | 16,290 |
| Accumulated Depreciation | (2,584,788) | (11,431,148) | (1,886,540) | (15,902,476) |
| At December 31, 2014 | 16,312,501 | 8,125,737 | 537,159 | 24,975,397 |
| At December 31, 2014 | | | | |
| Cost, December 31, 2014 | 18,883,402 | 19,554,482 | 2,423,699 | 40,861,583 |
| Construction In-progress | 13,887 | 2,403 | - | 16,290 |
| Accumulated Depreciation, December 31, 2014 | (2,584,788) | (11,431,148) | (1,886,540) | (15,902,476) |
| | 16,312,501 | 8,125,737 | 537,159 | 24,975,397 |
| Construction in Progress | 61 | - | - | 61 |
| Additions/ Transfer | 16, 172 | - | 46,040 | 62,212 |
| Depreciation for the Year | (128,307) | (256,473) | (69,118) | (453,898) |
| Depreciation Prior Years | - | - | - | - |
| Total December 31, 2015 | 16,200,427 | 7,869,264 | 514,081 | 24,583,772 |

An ongoing reconciliation is currently being made by the Accounting Department, the Land and Asset Management Department (LAMD) and the Procurement and Property Management Department (PPMD) to reconcile the records of the departments on the actual inventory of all existing properties particularly land, buildings, building improvements, furnitures, fixtures and other equipments. This is an initial action to reinstate the assets' value to its realizable amount/ fair value and assure the reliability of the amounts presented in the statement of financial position.

10. OTHER ASSETS

This account consists of the following:

| | 2015 | 2014 |
|-------------------------------------------------|----------------|----------------|
| Restricted Cash (\$LBP)- SBMA Debt Service Acct | 96,894 | 82,355 |
| LBP- - Trust Fund Various | 247,855 | 178,751 |
| DBP - Trust Fund Various | 87,064 | 82,309 |
| Arts, Archeological Specimen and Other Exhibits | 3,517 | 3,517 |
| Work Animals | 9,339 | 9,174 |
| Peso Time Deposit - LBP | 0.00 | 0.00 |
| Peso Cash on Hand | 857 | 857 |
| Due from Officers & Employees | 4,770 | 4,770 |
| | 450,296 | 361,733 |

For the Peso Cash on Hand of ₱856,754.66, please note that part of the difference between cash on hand of ₱856,754.66 has been accounted as rate of exchange difference at the time collection was received and when deposited.

11. PAYABLES & ACCRUED EXPENSES

This account consists of the following:

| | 2015 | 2014 |
|------------------------------------|----------------|----------------|
| Current | | |
| Accounts Payable | | |
| Capital Outlay | 34,930 | 8,149 |
| Unliquidated Obligation | 23,441 | 20,063 |
| Unclaimed Checks | - | - |
| Miscellaneous | 617 | 2,480 |
| | 58,988 | 30,692 |
| Accrued Expenses | | |
| Maintenance and Operating Expenses | 102,094 | 100,880 |
| Due to Officers and Employees | 13,161 | 20,869 |
| Guaranty | 20,829 | 16,537 |
| | 136,084 | 138,286 |
| Sub Total- Current | 195,072 | 168,978 |
| Non-Current | | |
| Accounts Payable - Miscellaneous | 12,435 | 18,970 |

| | 2015 | 2014 |
|------------------------------------------------|----------------|----------------|
| AP-Due to Officers-Unpaid Compensated Absences | 157,983 | 140,485 |
| Sub Total- Non-Current | 170,418 | 159,455 |
| Grand Total | 365,490 | 328,433 |

The payables account includes various obligations to suppliers, contractors and personnel. The obligations incurred are payables for such items of MOOE, Capital Expenditures, (Capex) and Personnel Services (PS). The latter represents accumulated earned leave credits of SBMA employees.

Unpaid Guarantee Fees for the current year are also reported in this section of the statement of financial position.

12. LOANS PAYABLES

This account represents drawdowns from the following bilateral lending institutions net of repayments:

| Creditor | Interest | Approved Loan | Total Drawdown In USD/YEN | Total Repayment | In YEN | In USD | 2015 (InPeso) | 2014 (In Peso) |
|--------------------------------------|------------------------------------------------------------------------------------------------------------|---------------|---------------------------|-----------------|------------|---------|------------------|------------------|
| Foreign Loans | | | | | | | | |
| World Bank I | | | | | | | | |
| World Bank II | 0.66% p.a. | \$ 60 M | 25,528 | 21,992 | | 3,536 | 166,423 | 256,031 |
| JBIC / OECF I | 2.50% p.a. (Category A - Consulting) and 2.10% p.a. (Category B - Civil Works) | JPY 1.03 B | 797,857 | 350,323 | 447,534 | 3,728 | 175,434 | 180,278 |
| JBIC / OECF II | 0.95% p.a. (Category A - Consulting) and 0.75% p.a. (Category B - Civil Works) | JPY 16.45 B | 15,683,166 | 2,838,666 | 12,844,500 | 106,992 | 5,035,044 | 4,950,579 |
| Loan Payable-LBP \$ Loan (Long-Term) | floating rate(prevaling 3 mo. London Interbank Offered Rate(LIBOR) plus a spread of 232 basis points (bps) | \$27M | 27,000 | | | 27,000 | 1,270,620 | 1,100,984 |
| Sub Total - | | | | | | | 6,647,521 | 6,487,872 |

| Creditor | Interest | Approved Loan | Total Drawdown In USD/YEN | Total Repayment | In YEN | In USD | 2015 (InPeso) | 2014 (In Peso) |
|----------------------|----------|---------------|---------------------------|-----------------|--------|--------|---------------|----------------|
| Foreign Loans | | | | | | | | |
| Domestic Loan | | | | | | | | |
| Total Loans Payable | | | | | | | 6,647,521 | 6,487,872 |
| Less Current Portion | | | | | | | 325,907 | 302,712 |
| Long-term Portion | | | | | | | 6,321,614 | 6,185,160 |

Foreign loans are recorded at restated value. Revaluation rate as of December 31, 2015 and December 31, 2014 are \$1:₱47.06, JPY1: ₱0.3920 and \$1: 44.72, JPY1: ₱0.3706, respectively.

Current portion of loans payable as follows:

| Creditor | Payment Period | | Foreign Currency Amount | Peso Equivalent (Based on Current Exchange Rate) |
|---------------------------------------|----------------|-----|-------------------------|--------------------------------------------------|
| Foreign Loans | | | | |
| World Bank II | Jan-15-2016 | USD | 1,143,400.00 | 53,808 |
| | Jul-15-2016 | USD | 1,178,100.00 | 55,441 |
| JBIC / OECF I | Sep-20-2016 | JPY | 19,458,000.00 | 7,628 |
| | Mar-20-2016 | JPY | 19,458,000.00 | 7,628 |
| JBIC / OECF II | Feb-20-2016 | JPY | 256,890,000.00 | 100,701 |
| | Aug-20-2016 | JPY | 256,890,000.00 | 100,701 |
| Loans Payable- Current Portion | | | | 325,907 |

13. DEFERRED CREDITS

This account consists of the following:

| | 2015 | 2014 |
|-----------------------------------------|------------------|------------------|
| Deferred Credit to Income Non-Cash | 67 | 39 |
| Deferred Credit to Income -Cash | 49,334 | 53,899 |
| Current Deferred Credit | 49,401 | 53,938 |
| Deferred Credit to Income Non-Cash | 332,236 | 312,287 |
| Deferred Credit to Income -Cash | 2,649,313 | 2,639,671 |
| Long Term Deferred Credit | 2,981,549 | 2,951,958 |
| Total Deferred Credits to Income | 3,030,950 | 3,005,896 |

Deferred credits include rentals received in advance from various investors/locators/residents related to long-term lease.

14. SECURITY DEPOSITS & ADVANCE RENTAL

This account consists of the following:

| | 2015 | 2014 |
|------------------------------------------------------------|----------------|----------------|
| Security Deposit and Advance Rental on Short - Term Lease: | | |
| Security Deposit - Locator | 38,533 | 37,414 |
| Security Deposit - Housing & Others | 437 | 436 |
| Advance Rental | 183,411 | 165,062 |
| Sub Total | 222,381 | 202,912 |
| Security Deposit on Long - Term Lease | 520,651 | 498,745 |
| Grand Total | 743,032 | 701,657 |

The Security Deposits represent cash payments made by tenants as a guarantee for unpaid utility bills at the end of the lease term. While advance rentals represent payments from Locators and Residents to be applied against the last month/s of the customer's occupancy of the leased facility. In no case shall this amount, during the term of the lease agreement, be applied to the customer's unpaid obligation unless the customer has given its intention to vacate the leased property. In the event that there is no outstanding account at the end of the lease term, the advance rental shall be refunded accordingly.

15. TRUST LIABILITIES

This account consists of the following:

| | 2015 | 2014 |
|----------------------------------------|----------------|----------------|
| National government | 37,824 | 37,710 |
| BIR | 6,330 | 3,104 |
| BOC | | |
| Government Owned and Controlled Corp. | | |
| GSIS | 7,055 | 6,766 |
| PAG-IBIG | 3,457 | 3,289 |
| PHILHEALTH | 773 | 670 |
| SSS | 58 | 59 |
| LGUs (2% Share on 5% Preferential Tax) | 160,673 | 141,552 |
| Retention Fees | 14,815 | 5,112 |
| Various Liabilities | 153,325 | 153,678 |
| | 384,310 | 351,940 |

16. PAID IN CAPITAL

This account consists of the following:

| | 2015 | 2014 |
|----------------------------------------|-------------------|-------------------|
| Paid-in Capital: | | |
| Cost of Fixed Assets | 19,100 | 19,100 |
| Cash Contribution from the Nat'l Gov't | 842,815 | 842,815 |
| Total | 19,942,815 | 19,942,815 |

17. APPRAISAL SURPLUS

The Appraisal Surplus represents the additional net book value of Buildings and Structures turned over by the U.S. Naval Base in 1993 booked based on the result of the physical inventory completed by the Fixed Asset Inventory Team in December 2003. The piecemeal realization of Appraisal Surplus was initially recorded in July 2005. This represents amortization of appraisal surplus.

The Land and Asset Management Department (LAMD) is currently in the process of verifying the inventory list of all SBMA properties particularly Land and Building. Appraisal and valuation of the properties to its Fair Market Value is being worked out by the LAMD which may affect the Appraisal Surplus account upon recording of the properties to its realizable and fair amounts.

18. INVESTED CAPITAL – HELD IN TRUST

The Invested Capital – Held in Trust includes eight motor vehicle from Hanjin and Summa Kumagai and furniture and office equipments from CPPAP.

19. DONATED CAPITAL

The Donated Capital are composed of the Instrument Landing System (ILS) partly financed by the Federal Express Corp. amounting to ₱ 34,367,662.00 and the 10 mural paintings of Artist Rene Robles amounting to ₱3,250,000.00.

20. GAIN (LOSS) ON REVALUATION

This account consists of the following:

| | 2015 | 2014 |
|---------------------------------------------|------------------|----------------|
| Gain (Loss) on Foreign Exchange | 104,744 | (40,533) |
| Gain (Loss) on Foreign Exchange - Cash | 70,835 | 64,778 |
| Subtotal- Realized Gain(Loss) | 175,579 | 24,245 |
| Gain (Loss) on Revaluation of Foreign Loans | (356,998) | 735,191 |
| Gain (Loss) on Revaluation of: | | |
| Dollar Accounts Receivable | 106,904 | 13,560 |
| Dollar Security Deposits | 54 | 499 |
| Dollar Deferred Credits | (179) | 969 |
| Dollar Advances | 30 | 392 |
| Subtotal- Unrealized Gain(Loss) | (250,189) | 750,611 |
| GRAND TOTAL GAIN(LOSS) | (74,610) | 774,856 |

Gain (Loss) on Foreign Exchange represents realized gain or loss from transactions such as collection of foreign denominated receivables, payments of foreign denominated loans and other payables, application of advance rentals against outstanding receivables and other transactions with similar cases.

Gain (Loss) on Revaluation represents unrealized gain or loss from translation of foreign denominated accounts to its peso equivalent using the month end rate for the period.

21. OTHER INCOME

This account consists of the following:

| | 2015 | 2014 |
|-----------------------------|----------------|----------------|
| Interest Income | 65,108 | 69,537 |
| Regulatory Fees | 260,125 | 204,817 |
| Other Gov't Business Income | 201,061 | 199,420 |
| Miscellaneous | 5,010 | 7,180 |
| | 531,304 | 480,954 |

22. OTHER EXPENSES

This account consists of the following:

| | 2015 | 2014 |
|----------------------------------|----------------|----------------|
| Interest on Loans | 81,821 | 83,662 |
| Guarantee Fees and Other Charges | 54,937 | 61,620 |
| Others | 354,626 | 268,392 |
| | 491,384 | 413,674 |

Guarantee Fees are paid to the Bureau of Treasury to guaranty payment of outstanding foreign loans. Full payment was made on February 6, 2014 on International Cooperative & Development Fund (ICDF) loans. Contractual Services-SBMA is included under Other Maintenance and Operating Expenses starting of August 31, 2013 and Other Professional Services-Fuel, Meals, Accommodation & Other Reimbursement, Travel and Communication are included starting April 30, 2014. Contractual Services-SBMA and Total Other Professional Services as of September 30, 2014 are ₱122,751,091.97 and ₱4,004,750.49, respectively.

23. RELATED PARTY TRANSACTIONS

The Authority has entered into a service and management contracts with Freeport Service Corporation (FSC), its wholly-owned subsidiary, since FSC's start of operations in 1996. Contracts include FSC's provision of manpower services to SBMA on a reimbursable basis plus 10% overhead mark up. However, the overhead markup has been increased from 10% to 13% effective December 17, 2004. Facilities management contract requires FSC's management of tourism-related facilities of SBMA. Under this arrangement, the term of which lasted until 2009, SBMA paid FSC a management fee of P6 million per month while SBMA received 5% of FSC's gross income on these facilities.

However, in SBMA's effort to wind up the operation of FSC, the management fee of P6 million per month were no longer extended beginning January 2010. With FSC's dormancy of operation beginning September 26, 2010, the provision for gross revenue sharing had also been stopped since FSC's facilities were taken over by SBMA, based on

the Omnibus Agreement between SBMA and FSC, for management by the Tourism Department and the LAMD.

24. TAXATION

As a territorial tax privilege in accordance with Section 43 of RA No. 7227, enterprises located within the Subic Bay Freeport Zone (SBFZ) shall be exempt from all national and local taxes. In lieu of paying taxes, the SBF enterprises, including SBMA, shall pay a final tax of 5% of their gross income earned from sources within the SBFZ. As defined in the same section of RA No. 7227, "gross income earned" shall mean gross sales or gross revenues derived from any business activity, net of returns, discounts and allowances, less cost of sales, but before deduction for administrative expenses and incidental losses during a given taxable period.

25. ASIAN ECONOMIC EVENTS

The Authority had obtained several loans with bilateral lending institutions to finance the infrastructure development of Subic Bay Freeport Zone. Most of these loans were negotiated and became effective before the Asian economic crisis hit the country in late 1997.

The peso depreciation vis-à-vis the US dollar, Japanese yen and Euro have had a great impact on SBMA's debt service requirements. Loans' peso value depreciates when pegged against their original peso value using the negotiated foreign exchange rate at loan dates.

To address the issue on the uncontrolled depreciation and appreciation of peso against foreign currencies from time to time, new lease contracts being entered by SBMA are now peso denominated.

26. IMPLEMENTATION OF THE INTEGRATED FINANCIAL MANAGEMENT SYSTEM (IFMS)

On June 1, 2004, the Authority had implemented the IFMS concurrent with the manual accounting. Three modules were developed to facilitate the recording of all transaction and information presented in duly certified and approved Journal Entry Vouchers. The function of each module is briefly discussed as follows:

- i. **GENERAL LEDGER MODULE (GL).** Facility to record all adjustments, corrections & reversing entries that cannot be recorded in the other modules replacing the manual recording/ reporting in the General Journal.
- ii. **ACCOUNTS RECEIVABLE MODULE (AR).** Facility to record all billing and collection transactions replacing the manual recording/ reporting in the Journal of Bills Rendered and the Journal of Collections and Deposits. The Journal of Accounts Receivable generated in this module replaces the aforesaid manual books.

Currently, Statement of Account (SOA) and Billing Statements issued to the Locators and residents are IFMS generated reports. The manual preparation of these reports has been stopped since the parallel run on the manual system and the IFMS AR module produced the same outputs.

- iii. ***ACCOUNTS PAYABLE MODULE (AP).*** Facility to record all obligation and disbursement transactions replacing the manual recording/ reporting on Voucher Payable Register and Journal of Checks Issued. The Journal of Accounts Payable generated in this module replaces the aforesaid manual books.

The Financial Statements are prepared manually based on the IFMS generated reports from the GL module, AR module and AP module. Although the three (3) modules produce reliable reports and outputs, the capability to integrate the outputs of the modules to produce the Financial Statements cannot be relied upon since development in the IFMS System has been stopped because of the Management's plan to require the Enterprise Resource Planning System (ERPS). The parallel run in the IFMS and manual preparation of Financial Statements will continue.

SBMA is planning to adopt the Enterprise Resource Planning System (ERPS) to replace the existing IFMS with integrated, commercially off-the-shelf package software that will reuse existing tools, data and processes. The ERPS is expected to remedy non-integration of data, which became a major dilemma in the implementation of the IFMS.

PART II – AUDIT OBSERVATIONS AND RECOMMENDATIONS

PART II - AUDIT OBSERVATIONS AND RECOMMENDATIONS

I. FINANCIAL AND COMPLIANCE AUDIT

Understatement of cash accounts- ₱0.355 million (net amount)

1. The cash balances of ₱2,759,175,878.81 as of December 31, 2015 were understated by net amount of ₱355,200.82 due to unrecorded (a) collections of ₱8,283,618.67; (b) disbursements of ₱7,438,061.63; and (c) adjustments of ₱490,356.22.

1.1 We have audited the Cash accounts with reported balances of ₱2,759,175,878.81 as of December 31, 2015 composed of seven sub-accounts presented below.

| Accounts | Balance |
|------------------------------------------|---------------------------|
| Cash - Collecting Officers | ₱ 7,861,795.30 |
| Cash - Disbursing Officers | 3,017.14 |
| Petty Cash Fund | 145,000.00 |
| Cash in Bank- Peso Savings Account | 93,856,857.23 |
| Cash in Bank – Peso Time Deposits | 520,518,093.37 |
| Cash in Bank – US Dollar Savings Account | 156,288,304.72 |
| Cash in Bank –US Dollar Time Deposit | 1,980,505,811.05 |
| Total | ₱ 2,759,175,878.81 |

The ₱7,861,795.60 collections were deposited to the depository banks in January 2016 as shown in the submitted deposit slips of the Treasury Department.

1.2 On January 28, 2016, the Audit Team requested bank confirmation of the balances of 11 cash balances. Based on the results of confirmation of the said accounts, five showed discrepancies with the balances shown in the Subsidiary Ledgers (SLs) as shown below.

| Account Name | Balance as of December 31, 2015 | | Disparity | |
|----------------------------------------------------------|---------------------------------|----------------|----------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | Per Bank | Per SL | Amount | Reasons |
| Cash in LBP - SBMA Peso Current Account No. 1572-1001-69 | ₱85,987,150.62 | ₱72,529,226.88 | ₱13,457,923.74 | 1. ₱12,620,222.79- Outstanding checks as of year-end. 2. ₱864,780.60- Deposited collections during the year which remained unrecorded in the books. 3. ₱27,079.65 – Various payments not yet recorded in |

| Account | Balance as of December 31, 2015 | | Disparity | |
|---------------------------------------------------------------------|---------------------------------|------------------------|-----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | | | books as of year-end. |
| Cash in DBP-SBMA Peso Savings Account No. 0575-002218-530 | 19,688,583.39 | 19,393,285.86 | 295,297.53 | ₱295,297.53- Deposited collections during the year which remained unrecorded in the books. |
| Cash in LBP-SBMA Peso Telegraphic Transfer Account No. 1571-0001-60 | 2,167,767.82 | 1,934,344.49 | 233,423.33 | ₱233,423.33- Deposited collections during the year which remained unrecorded in the books. |
| Cash in DBP - SBMA U.S. Dollar Savings Account 0575-00218-531 | 1,308,896.25 | 1,301,837.25 | 7,059.00 | ₱7,059.00- Deposited collections during the year which remained unrecorded in the books. |
| Cash in LBP - SBMA U.S. Dollar Savings Account 1574-0024-15 | 152,662,694.12 | 154,986,467.47 | (2,323,773.35) | 1. ₱5,557,564.85 - Deposited collections during the year which remained unrecorded in the books. 2. ₱7,410,981.98- Various payments made by the banks which were not yet recorded in books. 3. ₱490,356.22 - Loss on dollar revaluation based on End on the Month rate of (balance before revaluation ₱153,253,050.34 less per bank balance of ₱152,662,694.12). |
| Total | ₱261,815,092.20 | ₱250,145,161.95 | ₱11,669,930.25 | |

1.3 In summary, the total disparity in the balances of five cash accounts per banks and SLs is composed of:

| Reasons | Amount |
|------------------------|------------------------|
| Unrecorded collections | ₱ 6,958,125.11 |
| Outstanding checks | 12,620,222.79 |
| Unrecorded payments | (7,438,061.63) |
| Dollar revaluation | (490,356.22) |
| Total | ₱ 11,649,930.05 |

1.4 Further review of documents disclosed that the unrecorded collections for CY 2015 pertain to telegraphic transfers from locators that were collected towards the end of the year. Interview with Accounting Official concerned revealed that these collections were not readily identified to a particular payor as at year-end due to the failure of said payor/s to notify SBMA on their payments. Also, the banks are not issuing credit memos to SBMA for the details of the collections deposited. On the other hand, the unrecorded disbursements represented various payments to creditors that were already cleared by the bank as of year-end. However, the corresponding disbursement vouchers (DVs) and their supporting documents were not yet transferred by the Treasury Department to the Accounting Department hence, not yet booked as at same year end. Records showed that this has been a common audit issue in the past.

1.5 Further verification revealed that SBMA maintains an accounting system called the Integrated Financial Management System (IFMS). All unidentified collections through telegraphic transfers which were not yet recorded in the books are captured in the module, the Treasury's Outstanding Credit Memo. These collections were removed from the system and eventually recognized in the books as part of the cash balance only when the name of the payor is identified by the Treasury Department, which normally takes about four months at the most.

1.6 However, parallel review of the cash movement in the IFMS revealed that collections of ₱1,325,493.56 that were uploaded as early as CY 1995 still remained in the Treasury's Outstanding Credit Memo as of December 31, 2015 on eight bank accounts. The amount which was not yet recorded in the books as of year-end, is composed of the following:

| Credit Memo (CM) Dates | SBMA Bank Account No. | Total Amount |
|--------------------------------------|------------------------------|-----------------------|
| March 13, 1995 to May 26, 2015 | 1571-001-60 | ₱ 1,161,827.30 |
| March 18, 1997 to November 5, 2015 | 1574-0024-15 | 31,516.01 |
| November 3, 1997 to December 4, 2015 | 1572-1001-69 | 94,967.99 |
| June 23, 2006 to August 29, 2009 | 496-507334-0 | 12,395.45 |
| September 21, 2006 to April 28, 2009 | 0-5-00020-575-6 | 3,549.16 |
| August 7, 2007 to March 11, 2008 | 496-890017-5 | 470.00 |
| December 5, 2007 | 1572-1001-77 | 4,500.00 |
| August 26, 2009 to November 24, 2015 | 0575002218530 | 16,267.65 |
| Total | | ₱ 1,325,493.56 |

1.7 Inquiry with an official from the Treasury Department further disclosed that Account Nos. 496-507334-0, 0-5-00020-575-6 and 496-890017-5 were already closed in CY 2008.

1.8 In summary, the total unrecorded collections, disbursements and adjustments as of December 31, 2015 totaled ₱8,283,618.67, ₱7,438,061.63, and ₱490,356.22, respectively. As such, the balances of cash accounts were understated by net amount of ₱355,200.82 as of year-end.

1.9 A letter was submitted to this Office by the Finance Department stating that they are currently designing a guideline in the management of unidentified collections. Reportedly, one of the policies to be included is to automatically credit other income for unidentified collection that has been outstanding for a year.

1.10 We recommended and Management agreed that the:

- a. Accountant (i) initiate action to facilitate the identification of payors making payments thru telegraphic transfers; (ii) recognize the unbooked collections and disbursements immediately upon identification of the concerned debtors and creditors, respectively; and (iii) determine the status of the long outstanding credit memo and adjust balances; and
- b. Treasurer submits disbursement vouchers (DVs) and their support documents on time to the Accounting Department for recording of transactions.

Doubtful trade receivables – ₱4.106 billion

2. Of the Accounts Receivable-Trade balance of ₱4,106,523,069.14 as of December 31, 2015, ₱3,494,758,729.88 or 85.10% were doubtful since their existence and correctness were not established. Moreover, the reported receivables of ₱489,327,497.45 or 11.92% of the total trade receivables which had been in the books since CY 2013 with aged three to four years or more which remained non-moving.

2.1 We have audited account Accounts Receivables-Trade, on a test basis, with reported net realizable value of ₱447,175,158.87 as of December 31, 2015 broken down as follows:

| Particulars | Amount |
|---------------------------------------|-------------------------|
| Locators | ₱ 3,868,893,404.53 |
| Residential | 237,138,861.73 |
| Equitable Card Net Inc. | 490,802.88 |
| Total Trade Receivables | 4,106,523,069.14 |
| Less: Allowance for doubtful accounts | (3,659,347,910.27) |
| Net Realizable Value | ₱ 447,175,158.87 |

2.2 The Audit Team sent confirmation requests to 57 residents of the SBMA housing units and 30 locators with total receivables of ₱3,494,758,729.98 representing 85.10% of the year-end balance of Accounts Receivables-Trade of ₱4,106,523,069.14. The results of the confirmation are summarized below.

| Results of Confirmation | Residents (Housing) | | Locators | | Total | | | % on total Receivables-Trade |
|---------------------------------------------------------|---------------------|------------------------|----------------|--------------------------|----------------|-------------|---------------------------|------------------------------|
| | No. of Request | Amount | No. of Request | Amount | No. of Request | % | Amount | |
| Returned letters | 37 | ₱88,252,659.15 | 11 | ₱627,584,527.79 | 48 | 55% | ₱715,837,186.94 | 17.43% |
| Received but with no reply | 20 | 113,751,656.14 | 19 | 2,665,169,886.90 | 39 | 45% | 2,778,921,543.04 | 67.67% |
| Total Confirmed | 57 | ₱202,004,315.29 | 30 | ₱3,292,754,414.69 | 87 | 100% | ₱3,494,758,729.98 | 85.10% |
| Total Receivables- Trade as of December 31, 2015 | | | | | | | ₱ 4,106,523,069.14 | 100.00% |

2.3 As shown, all confirmation letters sent have unfavorable results. Of 57 correspondences sent to residents, 37 were returned with remarks: no one to receive, abandoned, unlocated, different unit owner, and closed/under SBMA control while the remaining 20 mails have no reply. As regards to the 30 letters sent to locators, 11 were returned with comments: company closed/under the control of SBMA, no one to receive while 19 locators did not respond.

2.4 The Audit Team noted that the letters were returned because of doubtful addresses which were lifted from the SBMA's IFMS under the module, Accounts Receivable Reports-Accounting Report-Statement of Account (Locators) (Residents) and from the aging schedule submitted by the Accounting Department.

2.5 Due to the total failure of confirmation, the Audit Team performed analytical procedures on the sub-account balances of Accounts Receivables-Trade amounting to ₱4,106,523,069.14 by comparing the balances to those of CYs 2013, 2014 and 2015 and analyzed any significant changes thereon. Of the said sub-accounts analyzed, five accounts with balances totaling ₱489,327,497.45 or 11.92 % of Accounts Receivables-Trade balance at year end were identified as non-moving from CYs 2013 to 2015 which composed of the following:

| Account Name | 2015 | 2014 | 2013 |
|--------------------------------------------------|----------------|----------------|----------------|
| Receivables-Transportation Services | ₱219,719.96 | ₱219,719.96 | ₱219,719.96 |
| Receivables-Other Government Business Operations | 3,341,000.00 | 3,341,000.00 | 3,341,000.00 |
| Receivables-Locator (Doubtful) | 431,865,723.27 | 431,865,723.27 | 431,865,723.27 |
| Receivables-Rent-Land, Building, and | 196,385.81 | 196,385.81 | 196,385.81 |

| Account Name | 2015 | 2014 | 2013 |
|------------------------------------------|------------------------|------------------------|------------------------|
| Equipment-Residential | | | |
| Due from Subsidiaries and Affiliates-FSC | 53,702,653.41 | 53,702,653.41 | 53,702,653.41 |
| Total | ₱489,327,497.45 | ₱489,327,497.45 | ₱489,327,497.45 |

2.6 Inquiry with the Accounting Department revealed the nature of sub-accounts and reason for their non-movement as shown below.

| Account Name | Nature | Reason for Non-Movement |
|------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Receivables-Transportation Services | Transportation Services provided to locators and other visitors of SBMA | No more billing endorsed to Accounting Department for transportation services. This comprised of old billings and most of the billed customers were not locators inside Subic Bay Freeport Zone. |
| Receivables-Other Government Business Operations | Based on the Memorandum of Agreement (MOA) wherein there is a Gross Revenue Share (GRS) provision of 5% from the advertisement lease of the banners spaces, signage, advertisement equipment and materials or ₱100,000.00 per month whichever is higher. | The MOA has expired on February 5, 2013 and no more renewal after that. The last payment received was in CY 2012. After CY 2015, additional payments were rendered. |
| Receivables-Locator (Doubtful) | A/R Doubtful account was used in billing the income the collection of which was doubtful due to some court issues. | COA issued an AOM on this resulting in the reclassification of the Deferred Income to Income. No payments were made by various locators due to various issues that were not yet resolved. |
| Receivables-Rent-Land, Building, and Equipment-Residential | Due from Subsidiary and Affiliates account is dedicated only to Freeport Service Corporation (FSC), a subsidiary of SBMA. | FSC winded up their corporate affairs started in August 2010 and its entire operation was dormant since September 26, 2010 |
| Due from Subsidiaries and Affiliates-FSC | Previously used to bill the former FSC employees for their hotel accommodations since they are not entitled to charge such expenses to SBMA. | |

2.7 Overall, the above conditions failed to support Management's assertions on the correctness of records and validity of these receivables as at December 31, 2015.

2.8 We recommended and Management concurred that the (a) Accountant (i) take serious efforts to ascertain the validity of the receivables; and (ii) review the long outstanding non-moving accounts for proper disposition; and (b) Database Administrator update the data base for locators in the Integrated Financial Management System (IFMS) particularly on their addresses and status of their accounts.

Lapses in grant and liquidation of cash advances – ₱19.673 million

3. *There were lapses in the grant and liquidation of cash advances in CY 2015 such as (a) granting of cash advances of ₱14,130,375.75 to SBMA officers who were not duly designated as disbursing officers; and (b) inadequate documentation of liquidations totaling ₱5,543,100.00 contrary to COA Circular Nos. 97-002 and 2012-001 dated February 10, 1997 and June 14, 2012, respectively, and exposed government funds to risks of misappropriation or loss and also cast doubt on their regularity.*

3.1 We have audited Advances to Officers and Employees (Special Purpose) account reported at ₱214,470.17 as at December 31, 2015 and observed the following deficiencies/errors:

a. *Cash advances granted to disbursing officers who were not duly designated as such - ₱14,130,375.75*

- Post-audit of disbursement vouchers (DVs) for cash advances with their liquidation reports revealed that cash advances totaling to ₱14,130,375.75 were granted to seven SBMA officers, ₱14,030,375.75 of which were given to the following six officers who were not duly designated as disbursing officers:

| | Name of Officer | Position | Amount |
|----|------------------------|-----------------------------------------------------|------------------------|
| 1. | Agregado, Ramon | Senior Deputy Administrator (SDA), Support Services | ₱ 12,687,800.00 |
| 2. | Camba, Mary Jamelle | Manager, Tourism Department | 425,700.00 |
| 3. | De Villa, Fernando Jr. | Deputy Administrator (DA), Administration | 451,940.00 |
| 4. | Escolango, Randy | DA, Legal Department | 299,700.00 |
| 5. | Jacalne, Solomon | Manager, Public Health and Safety Department | 63,170.00 |
| 6. | Rodriguez, Von | Manager, Legal Department | 102,065.75 |
| | Total | | ₱ 14,030,375.75 |

- The granting of cash advance without the requisite authority violated COA Circular No. 97-002 dated February 10, 1997 which limits disbursing functions to only duly appointed or designated disbursing officers.

b. Deficient documentation for grant and liquidation of cash advances - ₱5,543,100.00

- The grant and liquidation of cash advances for per diems in the total amount of ₱5,543,100.00 lack the support documents to sustain their regularity such as approved payrolls and legal basis for the payment of said per diems. Said documents were among those specifically required in COA Circular No. 2012-001 dated June 14, 2012 which listed the documentary requirements for common government transactions.

3.2 The above lapses exposed government funds to risks of misappropriation or loss and also casted doubt on their regularity.

3.3 We recommended that the Accountant refrain from (a) granting cash advances to officers who are not duly designated as disbursing officers; and (b) processing of grant and liquidation of cash advances which are not adequately documented.

Overstatement of balances of Inventory accounts – ₱88.815 million

4. *The Inventory account balances as of year-end of ₱107,844,168.70 were overstated by a net amount of ₱88,815,332.04 due to (a) unrecorded Spare Parts Inventory of ₱5,337,791.86; (b) inclusion in the balance of non-existing stocks of ₱2,361,825.11; and (c) unaccounted inventories of ₱91,791,298.79 resulting from lack of reconciliation between the accounting and property records in violation of Section 43 of the Manual on the New Government Accounting System (NGAS), Vol. I.*

4.1 We have audited account Inventories, on a test basis, with reported balances of ₱107,844,168.70 as of December 31, 2015. Said accounts composed of eight major accounts presented below with their corresponding balances as of year-end:

| Inventory Accounts | Balance |
|------------------------------------------------------|------------------------|
| Office Supplies and Materials | ₱22,331,860.96 |
| Medical, Dental, and Laboratory Supplies | 2,235,972.42 |
| Fuel, Oil and Lubricants | 21,487,268.74 |
| Inventory items for sale – Tourism Promotional Items | 2,359,755.52 |
| Maintenance Supply Inventory | 12,546,813.65 |
| Foreclosed/Garnished Properties | 685,500.00 |
| Spare Parts Inventory | 45,984,746.13 |
| Construction Materials Inventory | 212,251.32 |
| Total | ₱107,844,168.70 |

4.2 The ₱107,844,168.70 worth of inventories accounted for 4% of the total current assets of the agency as of year-end. In CY 2015 audit, exceptions on the existence of

these inventories were noted which had been the same issues raised to the management in previous audits. These include the following:

a. Unrecorded Spare Parts Inventory – ₱5,337,791.86

- Unrecorded spare parts inventory of ₱5,337,791.86 had been disclosed in prior year's physical count conducted by Property and Procurement Management Department (PPMD). The former Audit Team Leader (ATL) assigned at SBMA, recommended that Management require the Accounting Department to ascertain whether or not the ₱5,337,791.86 was really part of the unaccounted variance between the PPMD and Accounting records of Spare Parts Inventory otherwise, record the said inventories under the Spare Parts Inventory account.
- During the count conducted in CY 2015, the PPMD found and counted the same spare parts inventory at the Transportation Department. Comparison with the accounting records revealed that these spare parts were still not included in the current year's balance of Spare Parts of Inventory of ₱3,976,003.78 hence, part of the account - unaccounted spare parts inventory.
- As of year-end, the unaccounted variance for Spare Parts Inventory was still reported at ₱42,008,742.35 and the counted inventory of ₱5,337,791.86 remained unbooked.

b. Non-existing stocks - ₱2,361,825.11

- In the previous years, inventory accounts with same account balances over the years as shown in the table below were reported to be non-existing.

| Particulars | Amount |
|---------------------------------------------------------------|-----------------------|
| Medical, Dental, Laboratory Supply Inventory – Botikang Bayan | ₱ 2,069.59 |
| Inventory items for sale – tourism promotional item | 2,352,643.98 |
| Materials for sale other than tourism promotional sale | 7,111.54 |
| Total | ₱ 2,361,825.11 |

- The said condition was still true as of end of CY 2015.
- These three inventory accounts form part of the total inventories of SBMA as of year-end.

c. Unaccounted inventories - ₱91,791,298.79

- Balances of Inventory per GLs reported various unaccounted inventories accounts of ₱91,791,298.79 as of December 31, 2015.

- This audit observation had been a constant basis of the Audit Team's qualified opinion on the fairness of presentation of the agency's financial statements, in varying amounts, since CY 2000 hence, the Accounting Office reclassified these unaccounted/non-existing inventories into the following unaccounted inventory accounts, to wit:

| Inventory Accounts | Amount |
|------------------------------------------------------|-----------------------|
| Unaccounted Office Supplies and Materials | ₱18,930,640.44 |
| Unaccounted Medical, Dental, and Laboratory Supplies | 2,090,690.71 |
| Unaccounted Fuel, Oil and Lubricants | 20,957,080.24 |
| Unaccounted Maintenance and Supply | 7,804,145.05 |
| Unaccounted Spare Parts | 42,008,742.35 |
| Total | ₱91,791,298.79 |

- Sound internal control demands regular reconciliation of reciprocal records and reports maintained by agency units with interrelated transactions. Examples of agency units with interrelated transactions are the Accounting and Property Units in so far as the procurement and disposal of property and inventory items are concerned.
- Under the property and inventory accounting system, as stated in Section 43 of the Manual on the NGAS, Vol. I, both the Accounting and Property Units are required to maintain perpetual inventory records such as the Supplies Ledger Cards(SLCs) and Stock Cards (SCs), respectively, for each inventory stock. The balance in quantity per SC should always reconcile with the ledger cards of the Accounting Unit.
- In a meeting with the representatives from Accounting and Property and Procurement Departments, we gathered that based on the physical inventory conducted by the latter, the above-listed inventories were not located during the count.
- According to the Accounting staff concerned, attempts were made to determine the causes of the reported unaccounted stocks by retrieving prior years' records such as Reports of Waste Material from the Accounting Department's stock room.
- However, despite serious efforts exerted, no disposal documents were gathered. In the absence of valid basis to effect adjustment on the accounts, the Accounting Department settled on presenting again in this year's financial statements the perennial unaccounted balances of prior years' stock inventories.

4.3 Relatively, we were informed that the position for accounting staff to which the task of keeping the inventory accounts is supposed to be assigned is still vacant thus; the

task was assigned to a staff that handles other accounts. The concerned staff, however, admitted that only current transactions for inventory were recorded/adjusted and did not act on prior years unreconciled amounts. Same problem is encountered with the PPMD as there is a high turn-over of staff that handles inventory. Thus, reconciliation for inventory accounts between the accounting and property records was not done.

4.4 Through the years, management had agreed to comply with the audit recommendation to investigate the unaccounted variances among inventory records and reports on physical counts. However, the Audit Team did not find any significant compliance therewith.

4.5 The foregoing lapses in recording inventories overstated Inventories and Stockholders' Equity accounts both by a net amount of ₱88,815,332.04 as of year-end arrived at as follows:

| Particulars | Overstated (understated) |
|----------------------------------|--------------------------|
| Unrecorded Spare Parts Inventory | ₱ (5,337,791.86) |
| Non-existing Inventories | 2,361,825.11 |
| Unaccounted Inventories | 91,791,298.79 |
| Total | ₱ 88,815,332.04 |

4.6 **We recommended and Management agreed that the:**

- a. Accountant investigate and ascertain the causes of the unrecorded spare parts, non-existing and unaccounted inventories of ₱5,337,791.86, ₱2,361,825.11 and ₱91,791,298.79, respectively, then make the proper adjustment thereof; and
- b. Accountant and Property Officer conduct reconciliation of inventory records on a regular periodic basis.

4.7 The Management informed that reconciliation of inventories is now on-going.

Doubtful accuracy and existence of Property, Plant and Equipment (PPE) account balances – ₱24.584 billion

5. The reported balances of Property Plant and Equipment (PPE) accounts as of December 31, 2015 with net book value of ₱24,583,771,933.78 were unreliable due to (a) inclusion in the balances the costs of the demolished buildings and other structures totaling ₱1,095,575,641.60; (b) doubtful existence and valuation of PPE accounts amounting to ₱23,472,295,260.25; (c) incomplete report on the physical count of assets worth ₱2,469,739,025.93; and (d) discrepancy in the total land area of the agency's real estate property per accounting and property records by 1,013.22 hectares of undetermined amount.

5.1 We have audited Property, Plant and Equipment (PPE) accounts, on a test basis, with reported net book value of ₱24,583,771,933.78 as of December 31, 2015. Said accounts are composed of four major accounts presented below with their corresponding year-end balances.

| Property Accounts | Balance |
|--------------------------------|----------------------------|
| Land | ₱ 14,982,125,138.93 |
| Land Improvements | 1,218,301,655.17 |
| Buildings and Other Structures | 7,869,263,779.37 |
| Equipment and Machinery | 514,081,360.31 |
| Total | ₱ 24,583,771,933.78 |

The ₱24,583,771,933.78 PPE accounts accounted for 84% of the total assets of the agency as of CY 2015.

5.2 In the current year audit, the following audit exceptions were noted which were already reported in the previous audit reports:

a. *Demolished buildings still recognized in the books - ₱1,095,575,641.60*

- The balance of the sub-account PPE-Buildings as of CY 2015 included the ₱958,251,208.16 worth of 320 buildings, structures and utilities demolished in various years broken down as follows:

| PPE Classification | Number of Units | Total Amount |
|---------------------------|------------------------|-------------------------|
| Buildings | 192 | ₱ 854,075,478.40 |
| Structures | 123 | 100,643,631.68 |
| Utilities | 5 | 3,532,098.08 |
| Total | 320 | ₱ 958,251,208.16 |

- Included therein were ten demolished buildings and structures located within the leased property of the Ayala Land, Inc. valued at ₱17,760,970.40.
- In addition, the balance of the sub-account PPE-Fully Depreciated Buildings included also the ₱137,324,433.44 worth of 85 demolished buildings, structures and utilities broken down as follows:

| PPE Classification | Number of Units | Total Amount |
|---------------------------|------------------------|------------------------|
| Buildings | 53 | ₱ 29,660,967.52 |
| Structures | 26 | 72,252,605.76 |
| Utilities | 6 | 35,410,860.16 |
| Total | 85 | ₱137,324,433.44 |

- The Accountant informed that the said demolished buildings were not yet dropped from the books because the required supporting documents were not presented by the concerned officials.
- In our current year audit, the Accountant disclosed that they already had dropped various demolished buildings for CYs 2013 and 2014 amounting to ₱186,604,321.92 and ₱6,501,709.12, respectively, in response to the above findings. These were included in the demolished structures totaling ₱958,251,208.16 under sub-account PPE-Buildings. However, the Committee in Disposal failed to obtain the conformance of the COA on such disposal.

b. Doubtful existence and valuation of two PPE accounts - ₱23,472,295,260.25

- For the current year audit, the Accounting Department presented the following information on Land Improvements and Buildings accounts as of December 31, 2015:

| Accounts | Balances |
|--------------------------------|---------------------------|
| Land and Land Improvements | ₱ 3,917,813,713.50 |
| Accumulated Depreciation | (2,713,095,116.71) |
| Buildings and Other Structures | 19,554,481,546.75 |
| Accumulated Depreciation | (11,687,620,375.56) |
| Total | ₱ 9,071,579,767.98 |

- The Audit Team requested the Land and Asset Management Department (LAMMD) for the complete list of Land Improvements, Buildings and Other Structures to support the individual account balances as of December 31, 2015. However, the lists submitted did not show the corresponding book values and descriptions to match the accounting records for reconciliation. LAMMD further informed that they will request for the assessment of the properties in CY 2016, hence they opted not to report any more the value of these assets as of December 31, 2015.

c. Incomplete report on the physical count of PPE

- The financial statements as of December 31, 2015 presented a total value of ₱2,469,739,025.93 for the agency's various equipment, machinery, furniture and fixtures. A subsidiary ledger (SL) for each of the 20 sub-accounts under the major accounts was prepared by the Accounting Department for the following accounts:

| Accounts | Amount |
|----------------------------------------|----------------|
| Office Equipment | ₱ 9,765,398.22 |
| IT Equipment and Software | 143,505,519.60 |
| Machineries | 123,399.40 |
| Communication Equipment | 60,534,381.98 |
| Firefighting Equipment and Accessories | 3,396,684.00 |

| Accounts | Amount |
|---------------------------------------------------------------|-------------------------|
| Medical, Dental and Laboratory Equipment | 11,209,103.34 |
| Motor Vehicles, Land Transportation Equipment and Accessories | 154,868,993.47 |
| Watercrafts and Appurtenances | 9,074,840.36 |
| Vessels and Boats – Port Development | 514,618,823.46 |
| Airport Equipment | 37,996,292.00 |
| Technical and Scientific Equipment | 1,114,502.00 |
| Hand Tools | 1,042,083.05 |
| Water Supply Equipment | 1,103,644.55 |
| Electrification Equipment | 16,920,740.78 |
| Security Equipment | 15,016,523.00 |
| Equipment – Task Force Subic | 1,270,910.06 |
| Other Equipment | 109,342,869.17 |
| Fully Depreciated Equipment | 1,365,563,760.58 |
| Furniture and Fixtures | 13,171,490.61 |
| Library Books | 99,066.30 |
| Total | 2,469,739,025.93 |
| Less: Accumulated Depreciation | 1,955,657,665.62 |
| Net Book Value | P514,081,360.31 |

- In establishing the existence of each item under each sub-account, we requested for the copy of the latest inventory report prepared by the PPMD. The inventory reports available were, however, incomplete. Only the reports on the actual count of vehicles, communication equipment, and IT equipment were provided which are summarized below.

| Items | Amount |
|-------------------------|-------------------------|
| Computer Set | P 30,549,631.54 |
| CPU | 16,093,403.80 |
| Generator | 19,309,946.23 |
| Hand held Radio | 18,422,114.87 |
| Laptop | 6,875,631.92 |
| Mobile Base Radio | 4,121,986.64 |
| Printer | 9,191,019.47 |
| Projector | 52,790.00 |
| UPS | 7,444,459.50 |
| Transportation vehicles | 451,547,382.59 |
| Total | P 563,608,366.56 |

- The representatives from PPMD, Accounting Department and the Audit Team previously attempted to match items in the accounting records with those in the PPMD report to establish the existence and correctness of the reported balance for these properties. However, the absence of property number and property description made the reconciliation efforts futile.

- The PPMD informed the Audit Team that they are still in the process of completing the inventory of the agency's various equipment, machinery, furniture and fixtures and targets to finish it in CY 2016. On-going reconciliation is also being conducted with the Accounting Department. The PPMD and Accounting Department disclosed that the delay in the reconciliation can be attributed to the fast turn-over of staff assigned to handle equipment, machinery, furniture and fixtures and the outdated system used in the PPMD for the accounts.

d. Discrepancy in the total land area of the agency – 1,013.22 hectares

- As disclosed in the financial statements, the Land account with balance of ₱14,982,125,138.93 as of year-end represents the costs of an area of more or less 14,614.03 hectares which is the total land leasable area and 52,838 hectares that represents the land protected area or a total land area of 67,452 hectares which composed the Subic Special Economic and Freeport Zone. The Land and Asset Management Department (LAMD), the Department that allocates, controls and manages SBMA's real properties, however, stated that the total land area it manages and monitors for business use is only about 13,600.81 hectares which differ by 1,013.22 hectares from the Accounting records of 14,614.03 hectares. The 13,600.81 was the actual result of the survey made by the Department of Environment and Natural Resources (DENR) as used in the composition of RA No. 7227, known as the Bases Conversion and Development Act of 1992. The variance is limited only to the land leasable area notwithstanding its valuation.
- Inquiry with the Accounting Department disclosed that the same condition still existed as of December 31, 2015 and that the difference in the reported land area was the same as that in CY 2011.
- As already discussed in CY 2012 Annual Audit Report (AAR), the former LAMD Manager made a request to the DENR on March 12, 2012 for the verification and "reconstruction of Special Work Order No. 40367 Amended – Subic Bay Freeport Zone (SBFZ)". A resurvey should be conducted by the DENR to determine the actual land leasable area of SBMA to resolve the variance as reflected by the Accounting and LAMD records. Reportedly, action on the said request to DENR would finally set the meters and bounds of the agency. Review of records showed that LAMD made follow-ups to DENR on June 25, 2013 and October 15, 2015.
- Relative thereto, the Audit Team inquired from the LAMD and Community Environment and Natural Resources Office (CENRO) in Olongapo City for the status of these requests. However, as of this report, the Audit Team received no definite answer therefrom and was vaguely informed that the requests were either with the CENRO – Olongapo City or with the Provincial Environment and Natural Resources Office (PENRO)-Zambales.

5.3 We recommended and Management agreed that the:

- a. Head of the Land and Asset Management Department (LAMD) (i) furnish the Accounting Department with copies of reports on the demolished buildings, facilities and other structures; (ii) exert effort to follow-up the request from the DENR on the actual result of the survey made for the total land area for business use by the SBMA as basis of adjustments of the accounting records; and (iii) provide the Accounting Department the assessed value of the Land Improvements, Buildings and Other Structures;**
- b. Head of Procurement and Property Management Department (PPMD) fast track and complete the inventory of PPE and submit a report thereon the Accounting Department;**
- c. Heads of LAMD and PPMD furnish the Accounting Department with copies of records of disposal such as Inventory and Inspection Report and auction sale to effect necessary book adjustments for the demolished buildings/structures;**
- d. Accountant, after receiving the reports on the demolished buildings and other structures, Inventory and Inspection Report and Auction Sale, effect the necessary adjustments in the books; and**
- e. Heads of PPMD and LAMD and the Accountant reconcile their records on PPE accounts.**

Unreliable balance of Working Animals account – ₱9.339 million

6. The balance of Working Animals account as of year-end was unreliable due to the (a) non-inclusion of the values of nine cavalry horses with no appraised values; and (b) inclusion in the balance of the costs of the 19 dead animals totalling ₱1,021,778.00.

6.1 We have audited the account Work Animals with reported balance of ₱9,338,732.45 as of December 31, 2015 and observed the following deficiencies:

a. Unvalued work animals

- Nine horses with no appraised value were not included in the account balance. The excluded animals were all animal offsprings, detailed below.**

| Assigned Name of the Animal | Class | Age |
|-----------------------------|---------------|----------------|
| 1. Quarter | Riding Horses | 8 yrs. 9 mos. |
| 2. Supreme | | 7 yrs. 11 mos. |

| Assigned Name of the Animal | Class | Age |
|-----------------------------|---------------|--------------------|
| 3. Waco | | 3 yrs. 9 mos. |
| 4. Newly Born | Native Horses | No records on file |
| 5. Tala | | |
| 6. Kidlat | | 3 yrs. |
| 7. Kulog | | 5 yrs. 10 mos. |
| 8. Butad | | |
| 9. Lorenza | | No records on file |

- The said work animals were not yet recorded in the books in the absence of appraisal thereon. The consultant Veterinarian failed to provide the Accounting Department with the appraised value of the cavalry offsprings.

b. Deceased animals still included in the account balance – ₱1,021,778.00

- Review of the SLs for Work Animals account disclosed that 18 horses and one dog, all deceased in CY 2001, costing ₱961,778.00 and ₱60,000.00, respectively, remained part of the account. Reportedly, Management was still waiting for the filing of the request for relief from accountability by accountable officers concerned, although the Notices of Loss have long been submitted to Management and the corresponding information were already reflected in the SLs.

6.2 In summary, the balance of Work Animals account was unreliable as of year-end due to (a) non-inclusion of the value of nine horses of undetermined amount; and (b) inclusion of the dead animals costing ₱1,021,778.00.

6.3 We recommended and Management agreed that the (a) Veterinary Consultant provide the Accounting Office with the appraised value of the cavalry offspring; (b) concerned Accountable Officers file their request for relief with the COA; and (c) Accountant book-up the costs of the (i) nine cavalry horses at their appraised value after receiving the appraisal request from the Veterinary Consultant; and (ii) 19 dead animals.

Doubtful balance Accounts Payable account – ₱365.49 million

7. *The year-end balance of Accounts Payable account of ₱365,489,757.30 was understated by net amount of ₱10,845,512.96 resulting from (a) non-recognition of payables of ₱16,745,047.72 from the procurement made by the Procurement and Property Management Department (PPMD); and (b) late submission of disbursement vouchers (DVs) totalling ₱5,899,533.86 for payments already made to creditors.*

7.1 We have audited the Accounts Payable, on a test basis, with reported balances of ₱261,675,405.58 and ₱365,489,757.30 as of September 30, 2015 and December 31, 2015, respectively, specified as follows:

| Particulars | Amount as of September 30, 2015 | Amount as of December 31, 2015 |
|----------------------------------------------|------------------------------------|-----------------------------------|
| Unliquidated Obligations/Vouchers | ₱12,657,403.92 | ₱23,441,120.64 |
| Miscellaneous | 2,479,709.30 | 617,405.12 |
| Unpaid Salaries and Benefits | 134,990.00 | 134,990.00 |
| Personal Services | 8,814,059.78 | 5,645,791.05 |
| MOOE | 17,792,384.86 | 13,445,972.05 |
| CAPEX | 4,830,075.03 | 4,830,075.03 |
| Unclaimed Checks | 0.00 | 0.00 |
| Current Year | 55,066,759.10 | 88,648,137.95 |
| Current Year- Personal Services | 6,914,956.87 | 7,379,892.02 |
| Current Year- CAPEX | 240,000.00 | 30,099,320.89 |
| Current Year- Guaranty fees | 4,439,891.31 | 20,829,348.33 |
| Due to Officers- Unpaid Compensated Balances | 143,611,817.47 | 157,982,344.81 |
| Long Term | 17,350,761.86 | 12,435,323.41 |
| Balance per General Ledger | ₱261,675,405.58 | ₱365,489,757.30 |

7.2 As of September 30, 2015, Accounts Payable account has a reported balance of ₱261,675,405.58 which represents 12.82% of the total current liabilities as of said reporting date. The Audit Team sent confirmation letters to 41 creditors with accounts totaling ₱111,192,682.00 or 42.49% of the balance of Accounts Payable as of said date using SL. The results are shown below.

| Particulars | Number of Letters Sent | Balance per Accounting Records | Per cent |
|-----------------------------------------------------------------------------------------|---------------------------|--------------------------------------|----------------|
| Confirmed the balance | 2 | ₱ 600,000.00 | 0.54% |
| With disparity in balances | 13 | 47,498,427.74 | 42.72% |
| Returned to sender (Company moved out, incomplete address, refused to receive) | 3 | 3,067,108.41 | 2.76% |
| No response | 23 | 60,027,146.84 | 53.98% |
| Total | 41 | ₱ 111,192,682.99 | 100.00% |

7.3 As shown, two confirmed the balance of ₱600,000.00; 13 with reported disparity of ₱47,498,427.74; three with balance of ₱3,067,108.41 were returned to the Audit Team; and the remaining 23 accounts with an aggregate balance of ₱60,027,146.84 have no responses.

7.4 Presented in the table below, are the details of the results/responses:

A. Confirmed the balance

| Creditors | | Balances | | |
|-----------|---------------------------|------------------------|----------------------|--------------|
| | | Per Accounting Records | Per Creditor's Reply | Over/(Under) |
| 1 | CASER, APOLLO V. | ₱320,000.00 | ₱ 320,000.00 | - |
| 2 | FERNANDEZ, JO RAYMUNDO O. | 280,000.00 | 280,000.00 | - |
| | Total | ₱600,000.00 | ₱600,000.00 | |

B. With disparity in account balances

| Creditors | | Balances | | |
|-------------------------------------------------------|----------------------------------------------------------------------|------------------------|----------------------|------------------------|
| | | Per Accounting Records | Per Creditor's Reply | Over/(Under) |
| <i>With understated amount per accounting records</i> | | | | |
| 1 | POWER SECTOR ASSETS & LIABILITIES MANAGEMENT CORPORATION | ₱25,826,552.41 | ₱ 38,474,296.25 | (₱12,647,743.84) |
| 2 | BERKMAN SYSTEMS, INC & CENTER FOR ENVIRONMENTAL STUDIES & MGT (CESM) | 2,318,871.32 | 4,507,066.18 | (2,188,194.86) |
| 3 | SUBIC BAY MULTI-PURPOSE COOPERATIVE | 1,242,058.59 | 2,826,307.32 | (1,584,248.73) |
| 4 | CONTEL COMMUNICATIONS, INC. | 523,687.50 | 735,000.00 | (211,312.50) |
| 5 | EGCCV TRADING | 384,000.00 | 491,520.00 | (107,520.00) |
| 6 | CODEWORKS.PH, INC. | 295,312.47 | 301,339.26 | (6,026.79) |
| | Sub-Total | 30,590,482.29 | 47,335,529.10 | (16,745,046.72) |
| <i>With overstated amount per accounting records</i> | | | | |
| 7 | PROCONSULT INC. | 4,801,129.47 | 0.00 | 4,801,129.47 |
| 8 | BUREAU OF THE TREASURY | 8,366,488.04 | 8,184,567.94 | 181,920.10 |

| Creditors | | Balances | | |
|--------------------------------------------------------------------------|---------------------------------------------|------------------------|----------------------|------------------------|
| | | Per Accounting Records | Per Creditor's Reply | Over/(Under) |
| 9 | MUTYA NG PILIPINAS, INC. | 1,850,000.00 | 1,813,000.00 | 37,000.00 |
| 10 | DEVELOPMENT ACADEMY OF THE PHILIPPINES | 899,825.65 | 889,843.65 | 9,982.00 |
| 11 | CIVIL AVIATION AUTHORITY OF THE PHILIPPINES | 387,836.58 | 0.00 | 387,836.58 |
| 12 | PHILIPPINE MERCHANT MARINE ACADEMY (PMMA) | 310,000.00 | 121,000.00 | 189,000.00 |
| 13 | GREAT BREED ENTERPRISES. | 292,665.71 | 0.00 | 292,665.71 |
| | Sub-Total | 16,907,945.45 | 11,008,411.59 | 5,899,533.86 |
| | Net Effect in the Books | 47,498,427.74 | 58,343,940.69 | (10,845,512.96) |
| Total discrepancy between accounting records and creditors' reply | | | | P22,644,580.58 |

- As shown above, the variance per account balance ranged from as low as P6,026.79 to as high as P12,647,743.84.
- Inquiry with the Accounting Department disclosed that causes of the understated variance were due to the delay in the forwarding the necessary procurement documents from the PPMD hence, the payables were not yet recognized by the former. On the other hand, the overstated variances were attributed to late submission of DVs and their supporting documents by the Treasury Department although payments to creditors thru checks were already made.
- The total variance of P22,644,580.58 resulted in net understatement of Accounts Payable account balance as of year-end by P10,845,512.96 and casted doubt on the correctness of the balances of each account of the creditors appearing in the SL for the Account Payable account.

C. Returned to Sender

- The three letters that were returned to the Audit Team bore the following remarks on the mailing envelopes:

| | Creditors | Balance Per Accounting Records | Remarks |
|---|--------------------------------------|--------------------------------|--------------------|
| 1 | SAJ Car Care Center and Parts Supply | P2,290,000.00 | Company moved out |
| 2 | Rufo, Carlito Jr. Mendoza | 425,431.34 | Refused to receive |

| | | | |
|----------|---------------------------|----------------------|--------------------|
| 3 | Micro D International Inc | 351,677.07 | Incomplete Address |
| | Total | ₱3,067,108.41 | |

7.5 Meanwhile, having received no responses from the 23 creditors, the Audit Team conducted horizontal analysis of the account balances of the same creditors which were confirmed in CYs 2013 and 2014. We identified the following accounts whose account balances did not change from CYs 2013 to 2015, to wit:

| Creditors | | Balances | | |
|-----------|-------------------------------------------------------|---------------------------------------|---------------------------------|---------------------------------------|
| | | Amount as of September 30, 2015 | Amount as of August 31, 2014 | Amount as of September 30, 2013 |
| 1 | HANJIN HEAVY INDUSTRIES AND CONSTRUCTION COMPANY, LTD | ₱ 6,792,310.00 | ₱ 6,792,310.00 | ₱ 6,792,310.00 |
| 2 | SUBIC BAY YACHT CLUB, INC. | 2,510,991.10) | 2,510,991.10 | 2,510,991.10 |
| | PTT PHILIPPINES TRADING CORPORATION | 689,922.72 | 689,922.72 | 689,922.72 |
| 4 | NPC-GENCO | 617,405.12 | 617,405.12 | 617,405.12 |
| 5 | INNOVE COMMUNICATIONS, INC. | 282,974.00 | 282,974.00 | 282,974.00 |
| | Total | ₱10,893,602.94 | ₱10,893,602.94 | ₱10,893,602.94 |

7.6 With the data above, the Audit Team can conclude that the balances of the five individual accounts remained the same as of year-end of CY 2015.

7.7 The Audit Team extended the analysis of the Accounts Payable to cover the balance reported as of December 31, 2015. We noted that the balance increased from ₱261,675,405.58 to ₱365,489,757.30 or by ₱103,814,351.72. Review of the SL disclosed that the increase of ₱103,814,351.72 was mainly due to the obligations recognized from October to December 31, 2015, net of payments made during the same period. As such, the characteristics of the sampled confirmed balances as of September 30, 2015 would still be statistically the same as of December 31, 2015.

7.8 We recommended that the Manager, Accounting Department (a) coordinate with the 13 creditors whose accounts differ with those of the SBMA subsidiary ledgers (SLs); (b) reconcile the net understatement of ₱10,845,512.96 in the balances of creditors accounts per creditors' records and SBMA SLs and effect necessary adjustments thereon; (c) exert efforts to establish the validity of the five accounts whose balances had been unchanged since CYs 2013 to 2015; and (d) update the data base on the creditors to ensure accurate data/information on creditors.

Non-submission/incomplete documents for infrastructure projects

8. Copies of contracts together with the documents forming part thereof for projects costing at least ₱35,591,608.33 were not submitted to the Audit Team as of December 31, 2015 contrary to COA Circular No. 2009-001 dated February 12, 2009 which resulted in the delayed audit action and identification and correction of errors therefrom.

8.1 In CY 2015, the Audit Team observed several instances when they were requested by Management to inspect deliveries of goods, of which the copies of the pertinent contracts or purchase orders (POs) were only then submitted.

8.2 Commonly, contracts/POs were submitted only upon submission of the DVs and their supporting documents which normally took until the last week of the following month.

8.3 In the review of the status of submission of infrastructure contracts as of December 2015, we noted the pertinent documents of five contracts for infrastructure projects that were entered into by and between SBMA and the supplier/contractor as early as CY 2014 were still incomplete in the submission of the documents.

8.4 COA Circular No. 2009-001 dated February 12, 2009 provides that *Within five (5) working days from the execution of a contract by the government or any of its subdivisions, agencies or instrumentalities, including government-owned and controlled corporations and their subsidiaries, a copy of said contract and each of all the documents forming part thereof by reference or incorporation shall be furnished to the Auditor of the agency concerned.* On a similar note, Section 37.2.3 of the Revised Implementing Rules and Regulations of RA No. 9184, The Government Procurement Reform Act, enumerated the documents that shall form part of the contract which includes, among others, the bidding documents, Notice of Award of Contract and other contract documents that may be required by existing law and/or the procuring entity concerned in the Bidding Documents.

8.5 Despite our verbal reminders, the following contracts and their supporting documents were not yet given to the Audit Team as of December 31, 2015:

| SUPPLIERS | PARTICULARS | CONTRACT COST | VALIDITY DATE OF THE CONTRACT /PO | NO. OF DAYS SUBMISSION WAS DELAYED |
|-------------------------|----------------------------------------------------------------------|----------------|-----------------------------------|------------------------------------|
| SUBICCON Corporation | Proposed Pavement Repairs at Subic Bay International Airport Project | ₱ 8,002,878.64 | September 9, 2015 | 69 days |
| AUTOMATED TECHNOLOGIES, | SBMA Data Protection System | 8,169,000.00 | September 24, 2015 | 21 days |

| SUPPLIERS | PARTICULARS | CONTRACT COST | VALIDITY DATE OF THE CONTRACT /PO | NO. OF DAYS SUBMISSION WAS DELAYED |
|----------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------|-----------------------------------|------------------------------------|
| INC. | | | | |
| POLYMER - VIC Construction | Proposed Renovation of the Subic Bay Exhibition and Convention Center (SBECC) Phase 1 Project | 15,662,746.69 | November 17, 2015 | 23 days |
| PROPMECH Corporation | Preventive maintenance, etc of MVs | 2,546,983.00 | December 1, 2015 | 14 days |
| ONLITE LED LIGHTING TECHNOLOGIES INT'L CORP. | Enhancement of SBIA's Passenger Terminal Building Lighted Signage | 1,210,000.00 | December 7, 2015 | 10 days |
| Total | | ₱35,591,608.33 | | |

8.6 The failure of Management to submit within the prescribed period the contracts with their supporting documents deprived the Audit Team from conducting timely review of the Management's compliance with laws and regulations relative thereto and of the opportunity for the early detection and correction of errors therefrom.

8.7 We recommended that the Property Officer furnish the Audit Team copies of contracts, among others, documents forming part thereof within the period required by COA Circular 2009-001.

Gender and Development

9. The SBMA failed to comply with the laws and regulations on planning, budgeting, implementation of programs, activities and projects (PAPs) and the preparation of accomplishment report on Gender and Development (GAD).

9.1 Executive Order (EO) No. 273, dated September 8, 1995, Approving and Adopting the Philippine Plan for Gender-Responsive Development (PPGD 1995-2025), mandates agencies to incorporate and reflect Gender and Development (GAD) concerns in their agency performance commitment contracts, annual budget proposals, and work and financial plans. Pursuant to the Magna Carta of Women and the General Appropriations Act (GAA), all government departments, including their attached agencies, offices, bureaus, state universities and colleges (SUCs), government-owned and controlled corporations (GOCCs), local government units (LGUs) and other government instrumentalities shall formulate their annual GAD Plan and Budget within the context of

their mandates to mainstream gender perspectives in their policies, programs and projects.

9.2 In our audit of the implementation, monitoring and evaluation of GAD Programs, Activities and Projects (PAPs) of the SBMA for CY 2015, we observed the following violations of laws and regulations governing GAD, to wit:

a. Deficient budget for GAD

- Review of the Annual GAD Plan and Budget for FY 2015 as approved and endorsed by Philippine Commission on Women (PCW) showed that Management had earmarked a total of ₱3,905,000.00 for the GAD PAPs
- Section 34 of the General Provisions of the General Appropriations Act (GAA) for FY 2015 as reiterated in the updated Philippine Commission on Women/National Economic and Development Authority/Department of Budget and Management Joint Circular No. 2012-01, *Agencies are tasked to formulate a GAD plan and to implement the same by utilizing at least five percent (5%) of their total budget appropriations.*
- With the said requirement of the GAA for FY 2015 and PCW/NEDA/DBM Circular, the amount appropriated for GAD Budget during the year was deficient by ₱95,449,000.00 computed as follows:

| Particulars | Amount |
|-------------------------------------|------------------------|
| Approved Corporate Operating Budget | ₱ 1,987,080,000.00 |
| Threshold | 5% |
| Required budget for GAD purposes | 99,354,000.00 |
| Reserved budget for GAD purposes | 3,905,000.00 |
| Difference (Deficiency) | ₱ 95,449,000.00 |

b. Non-inclusion of the cost of GAD-related activities to the budget for GAD Programs, Activities and Projects.

- Review of the approved budget of SBMA for CY 2015 disclosed some PAPs or a portion thereof that may be attributed to GAD, were not considered in the GAD Budget for the year. A good instance on this was the salary and personnel benefits of those assigned to the Women's Desk of Law Enforcement Department and portion of the salary of a GAD member or officer equivalent to the cost of their man-hours attributed to GAD PAPs.
- Relatively, ANNEX A of PCW/NEDA/DBM Joint Circular No. 2012-01 expressly provided the expenses that cannot be charged to GAD Budget, unless allowed.

- According to the cited reference, only salaries paid to women personnel working full time or part time on GAD PAPs and/or salaries of casual and emergency employees assisting in GAD-related PAPs or other employees working on GAD programs and activities could be charged against GAD budget. In another citation, salaries of women assigned at the Women's Desk were allowable GAD expenditures. For this reason, the salaries of police women assigned at Women's Desk, Investigation Division of the LED could be charged to GAD budget based on gross annual salary. Furthermore, in case of GAD Focal Point System (GFPS) members or agency personnel rendering services on a part time basis or as an additional duty, ONLY the salary or wage proportionate to the time devoted to GAD related work shall be considered and included in the computation of the cost of the particular GAD activity.
- With the above provision, it can be resolved that the salary and personnel benefits of those assigned to Women's Desk of Law Enforcement Department, portion of salary of GAD member or officer and agency personnel proportionate to the time devoted to GAD related works are among the expenses that can be charged to GAD Budget.
- Inclusion of those above cited GAD-related expenditure will justify the provision of the 5% threshold for GAD Budget.

c. *GAD Budget not fully utilized*

- The directive requiring government agencies to appropriate the required fund for GAD activities necessarily includes the instruction authorizing said agencies to utilize them in accordance with the approved GAD Plan.
- As previously discussed, the Management allocated a total of ₱3,905,000.00 to implement the agency's GAD PAPs for CY 2015. Of the ₱3,905,000.00, only ₱2,753,471.46 was reportedly utilized in CY 2015 as shown below.

| GAD Activities | Approved Budget | Actual Expenditures | Balance Under/(Over) |
|---------------------------------------------------------|---------------------|---------------------|----------------------|
| Unimplemented PAPs | | | |
| Continued consultations and surveys to all stakeholders | ₱ 100,000.00 | ₱ 0.00 | ₱ 100,000.00 |
| Establishment of an Agency Day Care Center | 2,000,000.00 | 0.00 | 2,000,000.00 |
| Sub-total | 2,100,000.00 | 0.00 | 2,100,000.00 |
| Partially Implemented PAPs | | | |
| Providing gender- | 100,000.00 | 29,975.00 | 70,025.00 |

| GAD Activities | Approved Budget | Actual Expenditures | Balance Under/(Over) |
|----------------------------------------------------------------------------------------------------------------------------------|------------------------|----------------------------|-----------------------------|
| related trainings, seminar, and orientations; | | | |
| Production of GAD Comics | 600,000.00 | 99,650.00 | 500,350.00 |
| Provide culturally-appropriate and gender-sensitive trainings and health seminars | 100,000.00 | 27,030.65 | 72,969.35 |
| Providing Gender-related Trainings, Seminars and Orientations | 100,000.00 | 98,665.00 | 1,335.00 |
| Providing Gender related trainings, seminars, and orientations focusing on Laws and other procedures in protecting Women's Right | 100,000.00 | 40,000.00 | 60,000.00 |
| Purchase of capital outlay that will be used for GAD activities and programs | 155,000.00 | 47,700.00 | 107,300.00 |
| Sub-total | 1,155,000.00 | 343,020.65 | 811,979.35 |
| Total | ₱3,255,000.00 | ₱343,020.65 | ₱2,911,979.35 |

- Further review of the GAD Accomplishment Report (AR) for CY 2015 as generated from Gender Mainstreaming Monitoring System (GMMS) maintained by the PCW showed the following observations for non/full utilization of the GAD budget during the year:
 - Continued consultations and surveys to all stakeholders - Non-completion of data base due to lack of information provided by the stakeholders. Per report submitted online to PCW, there was an approved budget of ₱100,000.00 for this activity. However, the same was not reflected in the report generated by the GMMS.
 - Establishment of an Agency Day Care Center - Per instruction of the Agency's Chairman and Administrator, all renovations and construction for building 229, 225, 255 and 662 (the possible site for the Day Care Center) be put on hold pending the plan transfer and relocation of all offices to a new corporate center.

- Providing gender-related trainings, seminar, and orientations – Not all locators were covered due to limited time.
- Production of GAD Comics - Due to the long procurement process, the production of the GAD Comics were deferred.
- While for the following GAD activities, there were no reasons submitted for the non/partial utilization of fund:
 - Provide culturally- appropriate and gender-sensitive trainings and health seminars;
 - Providing Gender related trainings, seminars, and orientations focusing on Laws and other procedures in protecting Women's Right; and
 - Immediate purchase of capital outlay that will be used for GAD activities and programs.
- On the other hand, there were instances where the GAD PAPs actual expenditures exceeded the allotted budget as follows:
 - GAD awareness trainings to SBMA management;
 - Annual Observation of the Anti-Violence Against Women and their Children; and
 - Attendance/Availment of GAD and GAD-related orientation, trainings, seminars, workshops, benchmarking both local and international.

The details of which follows:

| GAD Activities | Approved Budget | Actual Expenditures | Balance Under/(Over) |
|-------------------------------------------------------------------------------------------------------------------------------------|-----------------|---------------------|----------------------|
| PAPs exceeding the allotted budget | | | |
| GAD awareness trainings to SBMA management | ₱250,000.00 | ₱479,535.90 | ₱(229,535.90) |
| Annual Observation of the Anti-Violence Against Women and their Children. | 100,000.00 | 568,169.00 | (468,169.00) |
| Attendance/ Availment of GAD and GAD-related orientation, trainings, seminars, workshops, benchmarking both local and international | 400,000.00 | 1,362,745.91 | (962,745.91) |

| GAD Activities | Approved Budget | Actual Expenditures | Balance Under/(Over) |
|-----------------------|------------------------|----------------------------|-----------------------------|
| Total | ₱750,000.00 | ₱2,410,450.81 | ₱(1,660,450.81) |

- Section 9.2 of the PCW/NEDA/DBM Joint Circular No. 2012-01 states that *Agencies shall inform the PCW in writing if there are changes in the PCW-endorsed GAD Plan and Budget as a result of revising the GPB based on the approved GAA and or the need to implement additional PAPs relevant to current gender issues or GAD-related undertakings as needed. PCW, in turn, shall acknowledge receipt of adjusted GPB and shall inform the agencies if the GAD PAPs or activities in the adjusted GPB are acceptable.*
- Non-utilization of aggregated unexpended balance of ₱1,251,528.54 as of year-end prevented the optimum realization of benefits that could have been derived from the unimplemented and partially executed GAD PAPs.

d. Inaccuracies of GAD-related reports

- In the review of GAD Budget and AR, the following inaccuracies were observed:
 - The amount of GAD Plan and Budget (GPB) was incorrectly aggregated to ₱3,905,000.00 instead of ₱4,005,000.00 due to incorrect automatic calculation of Gender Mainstreaming Monitoring System (GMMS) as per GAD Secretariat verification. The GMMS is an online system for automating the GPB and GAD AR submission of the agencies, GOCCs, SUCs and other government instrumentalities.
 - The total amount stated in GAD AR was incorrectly interchanged during the automatic calculation of GMMS.
 - The budget for the following GAD PAPs of Continued consultations and surveys to all stakeholders and Establishment of an Agency Day Care Center amounting to ₱100,000.00 and ₱2,000,000.00, respectively, were omitted in the preparation of AR thus, understating the balance of unexpended budget.
 - The variance should be ₱1,251,528.54 compared to ₱848,471.46 over-variance.

| Per GMMS | Amount |
|-----------------------------------|----------------------|
| Approved Budget | ₱1,905,000.00 |
| Actual Expenditures | 2,753,471.46 |
| Balance – Over expenditure | ₱(848,471.46) |

| Per Report Submitted | Amount |
|--------------------------------------------|----------------------|
| Approved Budget | ₱4,005,000.00 |
| Actual Expenditures | 2,753,471.46 |
| Difference – Unexpended (should be) | ₱1,251,528.54 |

- The inaccuracy of the report can lead to unreliable information or confusion.

e. *Doubtful regularity and propriety of GAD-related expenses - ₱1,209,874.76*

- GAD-related expenses amounting to ₱1,209,874.76 were incurred for the following:

| Descriptions | CV Amount | Remarks |
|-----------------------------------------------------|-----------------------|---------------------------------------------------------------|
| 1. Meetings Conducted for CY 2015 | ₱ 86,282.00 | 16 meetings do not have Agenda and/ or Minutes of the Meeting |
| 2. GAD Attributed Programs, Activities and Projects | 1,123,592.76 | Detailed below |
| Total | ₱ 1,209,874.76 | |

- In the post-audited of the DVs for the payment of expenses incurred for the meetings conducted for CY 2015 for GAD-related activities, we noted that of the 24 meetings concluded, 16 or 67% did not indicate the agenda or purpose of the meetings. Moreover, some were incompletely documented and with insufficient information as to purpose of activities.
- The incurrence of expenditures of ₱1,123,592.76 needs further documentation, justification and explanation as follows:

○ *Trainings conducted outside Subic Bay Freeport Zone*

- We noted that the following activities were conducted out-of-town:

| Particulars | Amount |
|---------------------------------------------------------------------------------------|---------------------|
| ▪ Harmonized Gender and Development Guidelines Training on April 7-8, 2015 at Bulacan | ₱ 149,609.00 |
| ▪ GAD Strategic Planning on June 24-26, 2015 at Baguio City | 141,859.43 |
| Total | ₱ 291,468.43 |

- The holding of such activities in other places instead of using the facilities of SBMA resulted in incurrence of additional costs in terms of rental of facilities, transportation and other-related expenses.

○ *Output of the GAD International Training/Seminar.*

- On March 23-27, 2015, Gender and Organization Change Seminar was held in Turin, Italy with a cost of ₱349,187.70. The said seminar was conducted by International Training Centre of International Labor Organization - Europe and attended by GAD Focal Point System Chairman of SBMA.
- The agency did not justify the necessity of attending such GAD international seminar and submitted any proof that the PCW did not offer the same within the locality. Moreover, neither the accomplishment nor the output on the attended seminar was not submitted to the Audit Team.

○ *Conduct of Gender Analysis and Year End Review*

- No accomplishment or result of the Gender Analysis and Year-End Review conducted on December 17-18, 2015 at a cost of ₱210,000.00 was submitted by the agency to the Audit Team to give the details of the activities conducted and the outputs therefrom.

○ *Incomplete documentation of various GAD PAPs*

- From April to June 2015, four GAD-related activities were undertaken as follows:

| Particulars | Amount |
|------------------------------------------------------------------------------------------|--------------------|
| Harmonized Gender And Development Guidelines (HGDG) Training on April 7-8, 2015, Bulacan | ₱35,000.00 |
| Gender Sensitivity Training (GST), May 4-5, 2015 | 24,500.00 |
| GAD Benchmarking, June 2-5, 2015, Naga City | 71,577.20 |
| GAD Strategic Planning on June 24-26, 2015 at Baguio City | 141,859.43 |
| TOTAL | ₱272,936.63 |

- However, the following documents were not attached to the pertinent DVs to support the propriety thereof.
 - Certificate of attendance of 11 participants on HGDG
 - Attached module or training program of GST
 - Output of benchmarking
 - Output of Strategic Planning
- Section 4(6) of PD No. 1445 states however, that *Claims against government funds shall be supported with complete documentation.*

- In complying with formulation and implementation of GAD-related activities, the provision of the above-cited law existing rules and regulations on government accounting and auditing should also be complied with to prove the propriety of the claims.

9.3 We recommended and Management agreed that the:

- a. **Chairman of SBMA allocate complete funding and include GAD in the strategic planning to facilitate full attainment of objectives in the pursuit of gender equality and women's empowerment within the context of the agency's mandates;**
- b. **SBMA-GAD Focal Point (i) exercise careful planning in identifying priority gender-issues, setting realizable targets, and designing workable activities towards achieving the set targets and be cautious in preparing GAD report to include necessary and exclude unnecessary expenditures in the conduct of GAD PAPs; (ii) carry-out the plan to its fullest extent by utilizing the budget allotted to ensure the full implementation of the GAD Plan; (iii) exercise care in the preparation of AR for accurate and precise reporting on GAD-related PAPs; and (iv) seek approval from Philippine Commission on Women (PCW) on the additional activities to be implemented to ensure that the GAD budget is expended only for duly approved PAPs;**
- c. **Accountant submit the necessary supporting documents and satisfactory explanation to support the propriety, exigency and authority of the expenses incurred/paid for GAD-related activities.**

Compliance with tax laws

10. Withholding taxes amounting to ₱42,815,330.17 were remitted to the Bureau of Internal Revenue (BIR) within the required period in accordance Revenue Regulation No. 2-98 dated April 17, 1998 and Revenue Memorandum Circular No. 17-2003 dated March 31, 2003.

10.1 The following Revenue Regulations provide that:

- a. *Revenue Regulation No. 2-98 dated April 17, 1998 - Monthly withholding taxes on compensation shall be remitted to the BIR on or before the tenth day of the following month except for taxes withheld from the last compensation of the year (December) which shall be filed not later than January 25 of the succeeding year.*
- b. *Revenue Memorandum Circular No. 17-2003 dated March 31, 2003 - Creditable and final withholding taxes shall be remitted to the BIR within ten days following the end of the month the withholding taxes was made except*

for taxes withheld for December which shall be filed on or before January 15 of the following year.

10.2 During the year, in addition to the beginning balance of ₱918,024.97, taxes withheld and remitted from compensation totalled ₱44,620,528.43 and ₱42,815,330.17, respectively, as shown below pursuant to the above regulations:

a. Expanded Withholding Taxes

| Month | Taxes Withheld | Total (Balance + Current) | Taxes Remitted | Due to BIR (Ending Balance) |
|----------------------|----------------------|---------------------------------|----------------------|--------------------------------|
| Beginning Balance | ₱918,024.97 | ₱ - | ₱ - | ₱ 918,024.97 |
| January | 396,820.74 | 1,314,845.71 | 223,349.34 | 1,091,496.37 |
| February | 273,431.71 | 1,364,928.08 | 324,692.25 | 1,040,235.83 |
| March | 236,051.18 | 1,276,287.01 | 233,660.80 | 1,042,626.21 |
| April | 367,403.42 | 1,544,095.58 | 214,532.38 | 1,329,563.20 |
| May | 139,254.99 | 1,468,818.19 | 264,301.07 | 1,204,517.12 |
| June | 211,874.44 | 1,282,325.61 | 363,292.71 | 919,032.90 |
| July | 180,645.64 | 1,099,678.54 | 202,731.18 | 896,947.36 |
| August | 281,173.54 | 1,178,120.90 | 171,128.85 | 1,006,992.05 |
| September | 537,891.41 | 1,544,883.46 | 193,524.31 | 1,351,359.15 |
| October | 709,318.68 | 2,160,230.17 | 569,109.22 | 1,591,120.95 |
| November | 368,033.93 | 1,859,602.54 | 379,652.57 | 1,479,949.97 |
| December | 1,161,411.53 | 2,641,361.50 | 733,253.86 | 1,908,107.64 |
| Total | ₱4,863,311.21 | | ₱3,873,228.54 | |

b. Withholding Taxes on Compensation

| Month | Taxes Withheld | Total (beginning + current) | Tax Remitted | Tax Adjustment | Due to BIR (Ending Balance) |
|----------------------|----------------|-----------------------------------|--------------|-------------------|-----------------------------------|
| Beginning Balance | ₱3,038,888.92 | ₱ - | ₱ - | ₱ - | ₱3,038,888.92 |
| January | 1,847,650.16 | 4,886,539.08 | 2,816,326.54 | 222,562.38 | 1,847,650.16 |
| February | 9,695,571.07 | 11,543,221.23 | 1,847,650.16 | | 9,695,571.07 |

| Month | Taxes Withheld | Total (beginning + current) | Tax Remitted | Tax Adjustment | Due to BIR (Ending Balance) |
|--------------|-----------------------|-----------------------------|-----------------------|--------------------|-----------------------------|
| March | 3,060,802.17 | 12,756,373.24 | 9,692,022.07 | 3,549.00 | 3,060,802.17 |
| April | 2,279,270.49 | 5,340,072.66 | 3,060,802.17 | | 2,279,270.49 |
| May | 3,180,231.13 | 5,459,501.62 | 2,279,270.49 | | 3,180,231.13 |
| June | 2,297,275.55 | 5,477,506.68 | 3,180,231.13 | | 2,297,275.55 |
| July | 3,105,263.69 | 5,402,539.24 | 2,320,792.41 | | 3,081,746.83 |
| August | 3,033,145.43 | 6,114,892.26 | 3,028,403.58 | 9,102.46 | 3,077,386.22 |
| September | 2,519,842.52 | 5,597,228.74 | 3,077,386.22 | | 2,519,842.52 |
| October | 2,538,137.95 | 5,057,980.47 | 2,519,842.52 | | 2,538,137.95 |
| November | 2,581,236.39 | 5,119,374.34 | 2,538,137.95 | | 2,581,236.39 |
| December | 3,618,790.67 | 6,200,027.06 | 2,581,236.39 | | 3,618,790.67 |
| Total | P39,757,217.22 | | P38,942,101.63 | P235,213.84 | |

10.3 Analysis and review of the entries in the General Ledger (GL) and records from the Accounting Department showed that the balance of Due to BIR account as of December 31, 2015 of P5,526,898.31 was subsequently remitted in January 2016.

10.4 We commended Management for their adherence and compliance with the BIR Revenue Regulation No. 2-98 and Revenue Memorandum Circular No. 23-2007.

Compliance with R.A. No. 8291, Government Service Insurance System (GSIS) law

11. Premium contributions, loan amortizations and other amounts due to Government Service Insurance System (GSIS) were deducted and duly remitted to the System in compliance with R.A. No. 8291, the Government Service Insurance System law of 1997, and its Revised IRR.

11.1 Section 14 of the Revised Implementing Rules and Regulations (IRR) of R.A. No. 8291, The Government Service Insurance System (GSIS) Act of 1997, in consonance with Section 6(b) of the same Act, states the following provisions on remittance of contributions to GSIS:

- a. Section 14.1 - *Each government agency shall remit directly to the GSIS the employees' and government agency's contributions within the first Ten (10) days of the calendar month following the month to which the contributions apply. The*

remittance by the government agency of the contributions to the GSIS shall take priority over and above the payment of any and all obligations, except salaries and wages of its employees.

- b. Section 14.2 - *The government agency shall also deduct from the fixed monthly compensation of the employee the loan amortizations (consolidated loans, policy loan, emergency loan, housing loan, and other loans), premium payments (optional, pre-need and other non-life insurance) and other amounts due the GSIS.*
- c. Section 14.3 - *The said amounts shall be remitted to the GSIS within the first Ten (10) days of the calendar month following the month when the deductions were effected, accompanied by supporting lists in the form prescribed by the GSIS.*

11.2 Audit of the premium contributions, loan amortizations and other amounts due to GSIS for CY 2015 revealed that SBMA complied with the provisions set forth by the said law as enumerated above. Premium contributions, loan amortizations and other amounts due to GSIS amounting to ₱29,570,879.76 were remitted as shown in this table.

| Month | GSIS Premiums Withheld | Total (a) | GSIS Premiums Remitted (b) | GSIS Refunded To Separate Employees (c) | Due to GSIS (Ending Balance) (d) = (a-b-c) |
|----------------------|------------------------------|---------------|----------------------------------|-----------------------------------------------------|-----------------------------------------------------|
| Beginning Balance | ₱ 1,969,477.11 | | | | ₱1,969,477.11 |
| January | 1,858,951.71 | ₱3,828,428.82 | ₱1,856,175.24 | ₱ - | 1,972,253.58 |
| February | 6,252,157.85 | 8,224,411.43 | 1,857,349.40 | - | 6,367,062.03 |
| March | 2,312,869.50 | 8,679,931.53 | 1,873,584.38 | 778.16 | 6,805,568.99 |
| April | 2,112,113.55 | 8,917,682.54 | 2,060,160.76 | 1,558.29 | 6,855,963.49 |
| May | 2,134,469.04 | 8,990,432.53 | 6,495,107.47 | 386.32 | 2,494,938.74 |
| June | 2,151,355.25 | 4,646,293.99 | 2,127,012.36 | 6,402.39 | 2,512,879.24 |
| July | 2,188,546.49 | 4,701,425.73 | 2,148,916.46 | 788.48 | 2,551,720.79 |
| August | 2,342,466.29 | 4,894,187.08 | 2,182,727.93 | 232.36 | 2,711,226.79 |
| September | 2,215,115.15 | 4,926,341.94 | 2,343,728.70 | 1,904.58 | 2,580,708.66 |
| October | 2,209,025.30 | 4,789,733.96 | 2,212,457.87 | 361.98 | 2,576,914.11 |
| November | 2,208,792.86 | 4,785,706.97 | 2,204,277.18 | 1,142.68 | 2,580,287.11 |
| December | 2,227,741.05 | 4,808,028.16 | 2,209,382.01 | 6,047.64 | 2,592,598.51 |
| Total | ₱30,213,604.04 | | ₱29,570,879.76 | | |

11.3 Inquiry with the Accounting Department disclosed that the unremitted balance of ₱2,592,598.51, which comprises of monthly premium contributions and loan remittances of employees, were remitted the following month.

11.4 We commended management for their compliance with the GSIS law.

Enforcement of Audit Suspensions, Disallowances and Charges

12. Audit disallowance amounting to ₱15,451,322.22 remained unsettled as of year-end contrary to COA Circular No. 2009-006 dated September 15, 2009. Of the said amount, ₱3,987,789.56 are still under appeal with the COA Regional Office No. III.

12.1 There were no suspensions and charges as of December 31, 2015. These were disallowances of ₱15,451,322.22 broken down as follows:

| | Outright Disallowances | Date | Particulars | Amount | Status/Remarks |
|---|-----------------------------------|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------------------------------------------------------------|
| 1 | ND-SBMA 2010-11-001 (2009) | 9-Nov-10 | Payment of Board of Directors per diem/allowances covering the period from January to December 2009 | ₱5,740,000.00 | Denied as per COA RO3 Decision No. 2016-020 dated February 19, 2016 |
| 2 | ND-SBMA 2010-11-002 (2010) | 12-Nov-10 | Payment of BODs per diem/allowances covering the period from January to December 2010 | 700,000.00 | Denied as per COA RO3 Decision No. 2016-020 dated February 19, 2016 |
| 3 | ND# 11-001- (10) | 12-Oct-11 | Calbayar Trading/JMG Horse Equipment Trading - payments of 10 patrol horses to be used for the SBMA Mounted Police Unit as per Bids and Awards Committee (BAC) Resolution No. 006-DC-09 for the Law Enforcement Department | 2,600,000.00 | Denied as per COA RO3 Decision No. 3014-72 dated August 13, 2014 |
| 4 | ND# 2012- 001 (2011) | 23-Feb-12 | Raffle items during the 2011 SBMA Christmas Party | 10,718.21 | On appeal to the COA Regional Office No. III. Awaiting for decision |
| 5 | ND# 2012- 001 (2011) | 23-Feb-12 | Sponsorship for the costumes used by the Public Service Group in its participation to the SBMA Christmas Party Showband Competition | 9,243.00 | |
| 6 | ND# 2012- 001 (2011) | 23-Feb-12 | Ms. Paulita R. Yee - meals consumed upon attending the | 2,928.57 | Balance of partial |

12.4 We recommended and management agreed that Chairman (a) cause the immediate settlement of the audit of the disallowances of ₱11,460,603.99, the appeal of which were denied, unless further appeals are filed; and (b) the full settlement of the disallowances of ₱2,928.57.

II. VALUE FOR MONEY AUDIT

13. Due to lack of plans to mitigate the risks of loss or reduced clientele, the SBMA apparently neglected the operation and maintenance of the Subic Bay International Airport (SBIA) resulting in (a) non-functional organizational structure of SBIA; (b) idle/obsolete/unmaintained equipment and facilities costing of at least ₱54,667,827.65 representing 86.63% of the overall airport equipment; and (c) loss of income opportunity caused by lack of comprehensive tourism marketing plan as evidenced by the decrease in passenger and aircraft movements by 82.78% and 44.31% of performance levels, respectively, in CYs 2008 to 2015.

13.1 In reply with the Audit Team inquiry on matters of SBIA, SBMA Chairman, in his letter dated February 10, 2016, stated that the US Navy left Subic Bay in CY 1992 and turned-over all of its facilities, including the Naval Air Station Cubi Point, to the Philippine Government. In CY 1995, the airport was converted and rehabilitated into a commercial grade international airport funded by loans from World Bank, World Banks (WBs) 1 and 2, with principal amounts of \$37,793,834.10 and \$25,528,003.74, respectively. Of the said amounts, \$31,181,688.31 and \$1,737,760.26, respectively, were allocated for the rehabilitation and improvement of the Subic Bay International Airport (SBIA). WB 1 was fully paid on August 15, 2015 with 4.88% interest per annum. On the other hand, WB 2 shall be paid until January 15, 2017, exclusive of 0.73% interest per annum.

13.2 In addition to his reply, he further informed that the SBIA, under the management of SBMA, aims to provide safe, efficient and expeditious international and domestic gateway and serve as diversionary for emergency field flights and add to the socio-economic activities of the Freeport. It was also envisioned as being the premier General Aviation Hub in Asia for Corporate Business Jets that is conducive for Logistic Services, Repair, Maintenance and Overhaul (MRO), Fixed Base Operations and Technical Stop.

13.3 During the first three years of operation of SBIA, it had a total net inflow of ₱(362,770,000.00) as shown in the table below.

| Year | Inflow (in thousand pesos) | Outflow (in thousand pesos) | | Net Flow (in thousand pesos) |
|------|----------------------------|-----------------------------|--------------------|------------------------------|
| | Revenues | Investment | Operating Expenses | |
| 1993 | ₱ 0 | ₱ 0 | ₱ 31,214 | ₱ (31,214) |

| Year | Inflow (in thousand pesos) | Outflow (in thousand pesos) | | Net Flow (in thousand pesos) |
|--------------|----------------------------|-----------------------------|--------------------|------------------------------|
| | Revenues | Investment | Operating Expenses | |
| 1994 | 224 | 0 | 33,064 | (32,840) |
| 1995 | 34,499 | 1,156,084 | 33,709 | (1,155,295) |
| Total | P 34,723 | P 1,156,084 | P 97,987 | P (362,770) |

13.4 During the peak of its operations, from CYs 1996 to 2008, it had total net cash inflows of ₱861,089,000.00 as shown below.

| Year | Inflow (in thousand pesos) | Outflow (in thousand pesos) | | | Net Flow (in thousand pesos) |
|--------------|----------------------------|-----------------------------|--------------------|---------------|------------------------------|
| | Revenues | Investment | Operating Expenses | Debt Service* | |
| 1996 | ₱ 81,640 | | ₱ 34,376 | | ₱ 47,264 |
| 1997 | 174,288 | ₱ 116,677 | 34,790 | | 22,821 |
| 1998 | 204,921 | 0 | 40,911 | | 164,011 |
| 1999 | 151,557 | 0 | 60,588 | | 90,969 |
| 2000 | 186,306 | 0 | 51,831 | ₱ 93,806 | 40,668 |
| 2001 | 209,549 | 0 | 67,370 | 92,774 | 49,406 |
| 2002 | 213,072 | 0 | 59,708 | 92,778 | 60,586 |
| 2003 | 233,504 | 0 | 65,067 | 95,222 | 73,215 |
| 2004 | 255,312 | 0 | 79,151 | 90,898 | 85,263 |
| 2005 | 255,187 | 0 | 59,763 | 99,518 | 95,906 |
| 2006 | 219,035 | 0 | 57,451 | 95,558 | 66,027 |
| 2007 | 193,948 | 0 | 53,848 | 98,795 | 41,305 |
| 2008 | 176,410 | 0 | 52,234 | 100,528 | 23,648 |
| Total | | | | | ₱ 861,089 |

**includes interest, guaranty fees and foreign exchange loss*

13.5 Records show that its major locators can be grouped into two: (a) the Federal Express (FEDEX); and (b) the Casino chartered flights originating from Taiwan, Malaysia, Japan Singapore and Korea. In CY 2010, these two major locators ceased operations at SBIA.

13.6 Accordingly, the SBIA re-visited its objectives and established the following mitigation plans and aimed for (a) a well-managed multi-use aviation facility; (b) Subic as an international destination; (c) airport passenger terminal privatization; (d) certification of SBIA aero dome operations; and (e) upgrading of navigation-instrument and airport facilities. The above mitigating measures are further broken down as follows:

a. Well-managed Multi-use Aviation Facility

- Establish implementing rules and regulations/Interoperability guidelines with the Philippine Air Force (PAF), Philippine National Police (PNP), Office of Transport Security (OTS), Civil Aviation Authority of the Philippines (CAAP) and other government agencies.
- Repair and rehabilitation of common facilities and equipment will be requested for inclusion to the Armed Forces of the Philippines (AFP) development plans.

b. Subic as an International Destination

- Re-establishment of International Chartered Flight
 - Gaming and Leisure Sport Opportunities(SBMA Management Tourism Initiatives for international market)
 - International Theme Parks
 - Attract Passenger traffic (Collaboration with Air Juan, Asian Institute of Aviation, Astro Air)
 - Full application of Executive Order (E.O.) No. 271 dated August 14, 1995 allowing a 'No Visa" requirement for entry/exit of international passengers
- Develop a niche market for high-end business corporate jet hub operations
- Technical Stop (Collaboration with Aviation Concepts, Inc. and other companies)

c. Airport Passenger Terminal Privatization

- Conduct feasibility study through Public-Private Partnership (PPP)projects of SBMA
- Airport Operators with linkages in various destinations to develop international flights

d. Certification of SBIA Aerodrome Operations

- Procurement of International Civil Aviation Organization (ICAO)manuals
- Submission and approval of Aerodrome Manual (Part 1-6) and corresponding Annexes

e. *Upgrading of Navigational Equipment and Airport Facilities*

- Establishment of Area Navigation-Instrument Flight
- Repair and rehabilitation of common facilities and equipment will be requested for inclusion to the AFP development plans.

13.7 Inquiry with the SBIA Manager revealed that mitigation plans were formulated for CYs 2011 and 2012. However, as of to date, the said plans were not yet fully materialized or even far from their implementation.

13.8 So far, SBMA had several prominent events such as Century Tuna Ironman Triathlon, Regent 5i50 Triathlon and Toyota Vios Cup and some promotional and commercial shoots that were held in SBIA and attended by almost 5,000 persons in CY 2015 alone. In addition, the SBMA Business and Investment Department for Logistics is promoting the airport as place for investments. Per latest information, Astro Air and AirJuan are coming in to fly local and international tourists on a regular basis.

13.9 Notwithstanding the above change of plans and accomplishments, the operation of the SBIA still incurred losses of ₱212,168,000 from CYs 2010 to 2015. Below is the summary of its income and expenses for the said period.

| Year | Inflow (in thousand pesos) | Outflow (in thousand pesos) | | | Net Flow (in thousand pesos) |
|--------------|----------------------------|-----------------------------|-----------------|-----------------|------------------------------|
| | Revenues | Investment | OPEX | Debt Service* | |
| 2010 | ₱31,368 | ₱0 | ₱32,003 | ₱69,307 | ₱(69,942) |
| 2011 | 36,571 | 0 | 38,010 | 48,938 | (50,377) |
| 2012 | 38,600 | 0 | 31,225 | 52,761 | (45,387) |
| 2013 | 57,729 | 0 | 31,225 | 46,522 | (20,048) |
| 2014 | 40,534 | 0 | 32,756 | 33,277 | (25,499) |
| 2015 | 75,579 | 0 | 43,217 | 33,277 | (915) |
| Total | ₱280,381 | ₱0 | ₱208,436 | ₱284,082 | ₱(212,168) |

**includes interest, guaranty fees and foreign exchange loss*

13.10 OPEX include expenses incurred for manpower, utilities, bad debts, supply and fuel, travel and trainings, communication services, repairs and maintenance, advertising, promotion and marketing, bonds and insurances, other services and other miscellaneous expenses.

13.11 Other than the loss of income, the following were also some of the undesirable effects of the loss of the airport's major clients and the lack of back-up measures in managing risks of reduced clientele:

| | Position Vacated | Remarks |
|----|----------------------------------------|--------------------------------------------------------------------------|
| 8 | Airways Communicator II | Resigned 03/01/2008 |
| 9 | Aviation Safety Regulations Officer II | Resigned 6/17/2013 |
| 10 | Communication Development Officer I | Resigned 4/08/2008 |
| 11 | Records Officer | Promoted (Office of Senior Deputy Administrator for Operations) 6/5/2014 |

| | Position Hired | Date |
|---|-----------------|-----------|
| 8 | Secretary I | 8/11/2014 |
| 9 | Storekeeper III | 8/13/2014 |
| | | |
| | | |

b. Idle and/or obsolete facility -P54,677,827.65

- As reported by the Accountant, of the SBIA total Property, Plant and Equipment of P61,018,764.29 as of December 31, 2015,P54,667,827.65 or 86.63% were all fully depreciated.
- Using the said PPE report, the Audit Team conducted inspection of the 14 PPE items on April 27, 2016 and noted that the three existing items were defective, while the remaining 11 were not found during the inspection.

○ List of existing but defective PPE items

| Particulars | Cost Per Books | Date Booked | Useful Life (in months) |
|----------------------------------------------|-----------------------|-------------------|-------------------------|
| 1 Airport Runway Sweeper Truck | P5,897,383.95 | October 25, 2004 | 84 |
| 2 2 X-Ray Machine Monitor (Cathode Ray Tube) | 131,152.00 | May 31, 2005 | 120 |
| 3 Instrument Landing System | 36,288,540.00 | December 29, 2005 | 120 |
| Total | P42,317,075.95 | | |

- The following are the pictorial report on the inspected airport equipment and facilities:



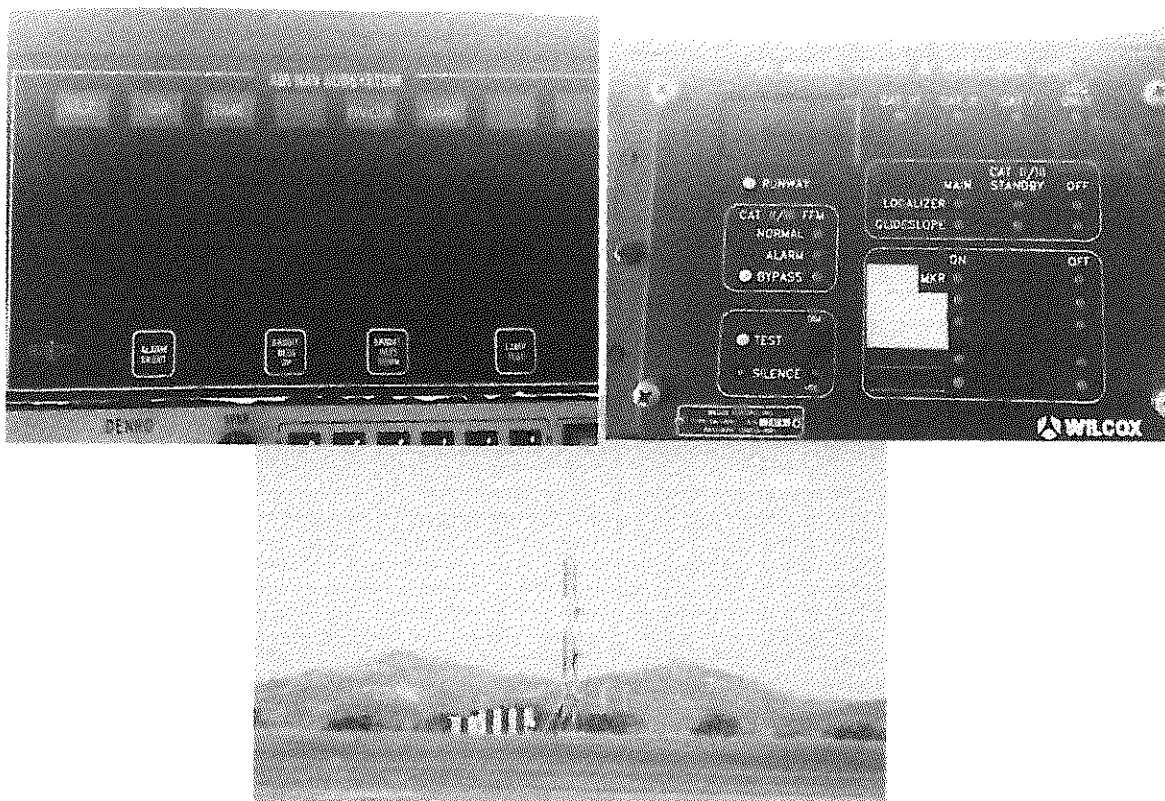
Defective Airport Runway Sweeper Truck

| | |
|-------------------|------------------------------------------------------------------------------------------------|
| Use: | Maintains aircraft movement area free from Foreign Object Debris for safe aircraft operations. |
| Year Acquired: | Not stated |
| Acquisition Cost: | ₱6.5 million |
| Replacement Cost: | ₱10 million |



X-ray Machine Monitor with Walkthrough Metal Detector

| | |
|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| Use: | Color coded acquisition of images thru radiologic screening to identify hazards in the baggage of the passengers for safety and security purposes. |
| Year Acquired: | 1995 |
| Acquisition Cost: | ₱7.9 million |
| Replacement Cost: | ₱11million |



Broken Instrument Landing System

Use: Air navigation system that provides aid to landing aircraft at a certain height for a precision approach to the runway. Consists of Localizer, Glide Path and Distance Measuring Equipment.

Year Acquired: 1994

Acquisition Cost: \$1.9 million

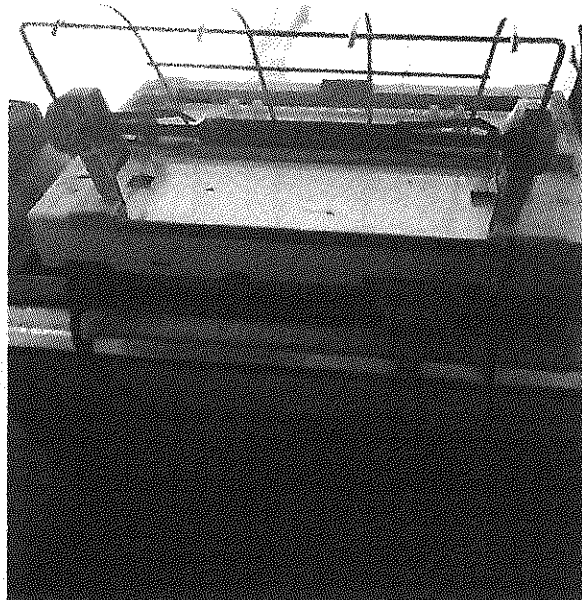
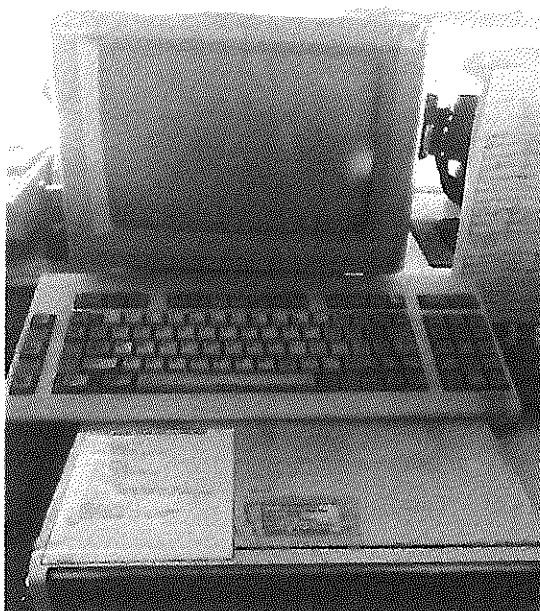
Replacement Cost: ₱140 million

- PPE items not found during the inspection

| | Particulars | Cost Per Books | Date Booked | Useful Life (in months) |
|---|------------------------------------------------|----------------|-------------------|-------------------------|
| 1 | Isuzu Hi-lander Wagon "Crosswind XL2005 Model" | ₱ 738,000.00 | October 31, 2005 | 84 |
| 2 | Airport Truck Sweeper Parts | 64,125.00 | November 15, 1993 | Not stated |
| 3 | Spare Parts for airport surveillance radar-9 | 7,297,158.42 | February 28, 1999 | |
| 4 | G.E. UPS System | 2,300,000.00 | July 31, 2004 | |
| 5 | 2 Fire Extinguisher | 97,500.00 | April 30, 2006 | 84 |
| 6 | 2 Pick-Up Truck-Double Cab (2x4) | 1,780,000.00 | December 29, 2006 | |

| Particulars | | Cost Per Books | Date Booked | Useful Life (in months) |
|-------------|---------------------------|-----------------------|--------------------|-------------------------|
| 7 | Battery Charger | 6,559.00 | August 17, 2009 | 60 |
| 8 | Microwave Oven | 4,195.00 | August 27, 2009 | |
| 9 | Digital Camera-Nikon D40 | 25,000.00 | September 29, 2009 | |
| 10 | 4 Amplifier, Push to Talk | 23,214.28 | November 17, 2009 | |
| 11 | 8 Headset, Telephone | 25,000.00 | | |
| | Total | ₱54,677,827.65 | | |

- The Management staff who was with the Audit Team during the inspection also pointed out one telecommunication equipment that was already outmoded as shown in the picture below.



Outdated OKITEK (TELEX Terminal)

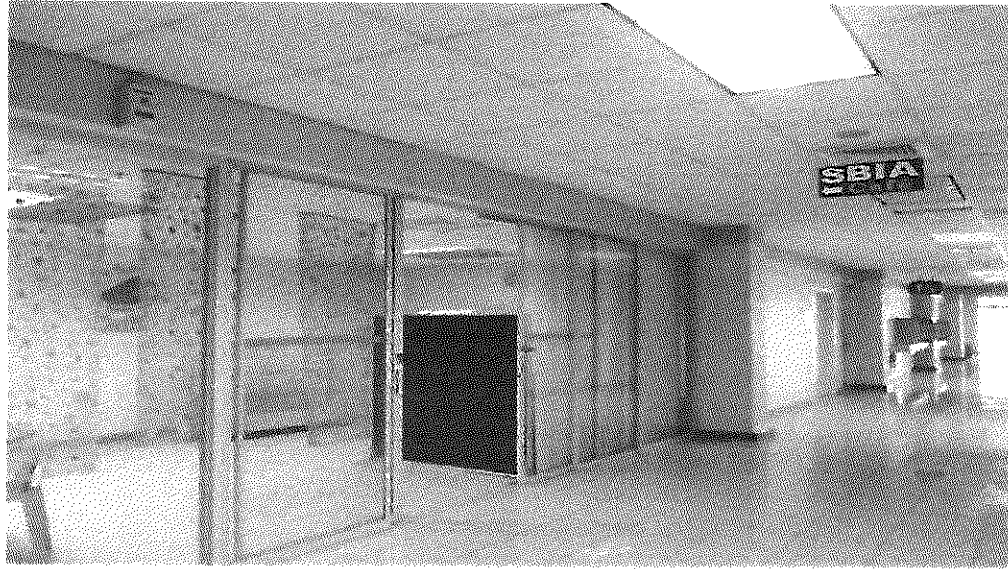
Use: An obsolete system that provides messaging services for aeronautical offices, aero domeoperators, aircraft operators and pilots.

Year Acquired: Not Stated

Acquisition Cost: Not Stated

Replacement Cost: ₱2.5 million

- The Audit Team further observed various unused airport facilities as follows:



SBIA Café



Closed First Aid Room



Empty Arrival Section



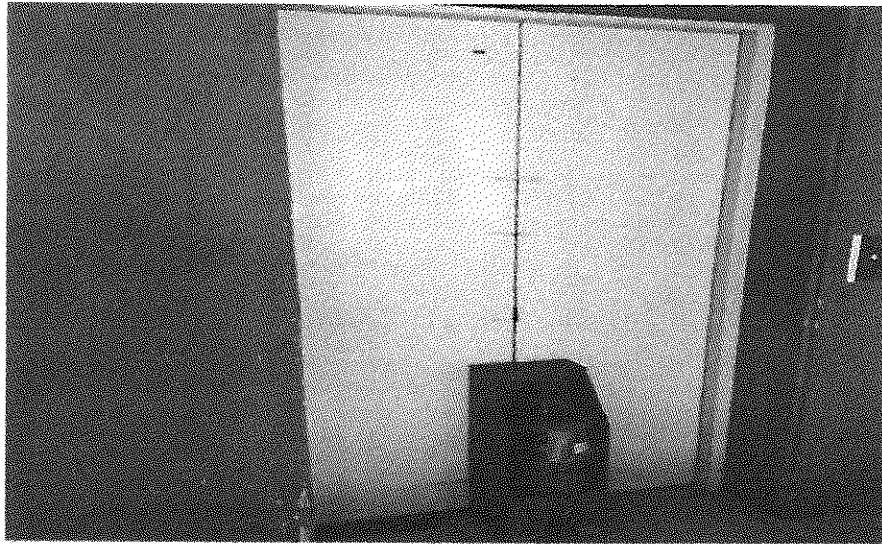
Unused Baggage Conveyor



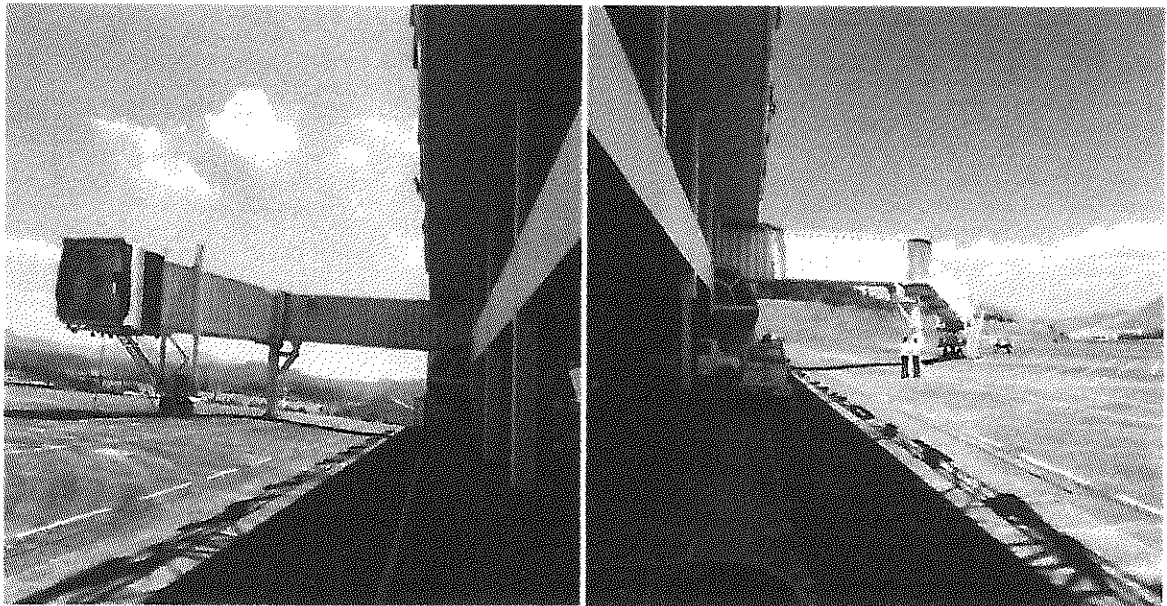
Vacant Duty Free Shop



Unutilized Departure Area



Out of order Elevator



Two Faulty Aircraft Passenger Boarding Bridge

Used: Allows passenger to embark and disembark directly thru a covered walk from and to the Passenger Terminal Building and the Aircraft.

Year Acquired: 1995

Acquisition Cost: ₱12 million

Replacement Cost: ₱50 million

- According to leanproduction.com, overall equipment effectiveness breaks the performance of airport facility into measurable factors such as availability, performance and quality. Availability deals with the duration of up time for operations and is a measure of how often the equipment is alive and well.

Considering that frequent downtimes for repairs and maintenance are occurring, the reliability of most of the equipment is uncertain.

- The Audit Team was furnished by the Accounting Office of the copy of the report on the amount of repairs and maintenance for the year ended 2015, wherein ₱9,806,000.00 representing 22.69% of the total operating expenses was incurred during said year.
- The capacity for creating revenue decreases because the equipment is not in service for a large percent in time. On the other hand, performance of equipment is also compromised in the airport's operations due to its aging state and the wasted performance because of loss of speed. Lastly, quality is lacking in the current condition of the airport's equipment because of defects, deficiencies and significant variations.
- Positive observation to balance the drawbacks of airport's operation is articulated in the strategic plans made by management that include well managed multi-used aviation facility. SBIA revisited its objectives to mitigate negative aspect of their equipment productivity and came-up with an idea to request for inclusion to the AFP development plans to repair and rehabilitate of common facilities and equipment. Also, they are formulating IRF/interoperability guidelines with PAF, PNP, OTS, CAAP and other government agencies. Further, the upgrading of navigational equipment and airport facilities thru establishment of area navigation instrument flight are also included in the said strategic plans.

c. *Loss of income opportunity - ₱216,678,000.00*

- Per SBIA report, FEDEX and Casino flights stopped their operations in CY 2010. Records show that even a year before these two major clients ceased their operations, SBIA had already incurred loss of revenues as shown in the table.

| Year | Inflow | Outflow | | Net Flow |
|--------------|-------------------------------|------------------------|------------------|-------------------|
| | Revenues (In Thousands) | OPEX (In Thousands) | Debt Service* | |
| 2009 | ₱126,434 | ₱44,072 | ₱86,872 | ₱ (4,510) |
| 2010 | 31,368 | 32,003 | 69,307 | (69,942) |
| 2011 | 36,571 | 38,010 | 48,938 | (50,377) |
| 2012 | 38,600 | 31,225 | 52,761 | (45,387) |
| 2013 | 57,729 | 31,225 | 46,522 | (20,048) |
| 2014 | 40,534 | 32,756 | 33,277 | (25,499) |
| 2015 | 75,579 | 43,217 | 33,277 | (915) |
| Total | ₱406,815 | ₱252,508 | ₱370,954 | ₱(216,678) |

**includes interest, guaranty fees and foreign exchange loss*

- As shown, SBMA had already lost income of ₱216,678,000.00 from CYs 2009 to 2015. The steep drop in the aircraft movement from CYs 2008 to 2015 is shown below.

| Year | No. of Passengers | No. of Aircrafts |
|--------------------------|--------------------------|-------------------------|
| Year 2008 | 10,682 | 108,721 |
| Year 2015 | 1,839 | 60,551 |
| Decrease in No. | 8,843 | 48,170 |
| Ratio of Decrease | 82.78% | 44.31% |

- It is apparent that the significant decline in both passenger and aircraft flows had not been foreseen and anticipated by management hence, risk management procedures were not put in place. The SBIA is only a department under SBMA and accordingly, only the operations of the airport is their main concern. Other functions like tourism and business investment are covered by a separate department, namely: the SBMA Tourism Department and the Business and Investment Department for Logistics.
- SBIA brought up that progress of the airport primarily rests on the advertising of SBMA. However, the SBMA Tourism Department informed the Audit Team that SBIA was not included in the promotional activities of their department for a range of tourism events because the airport facility was not designed for the tourism purposes. They also said that there are various limitations in using the airport facility for tourism affairs purposes due to other airport operations that need to be considered.
- Contrary to their first statement, the SBMA Tourism Department specified that they handled the promotion of Subic Bay as a premier destination for a variety of activities and events and primarily promote SBMA owned facilities, to where airport is also part, as well as locator establishments as preferred areas for different reasons. It thus, appeared that the tourism department concerns itself only with the advertising of Subic Bay as a premier tourist destination. The Tourism Department commented that other SBMA departments and groups are responsible for their own marketing and planning.
- Based on the foregoing, the management failed to coordinate the functions of the SBIA and SBMA Tourism Department in advancing the common goal which resulted in indefinite plans in marketing, delays in performance of duties, and unintentional passing of responsibilities. The effect of this lapses display that from CY 2009 to 2015, the airport was unable to have positive net flow in their financial performance.
- Also, with the information presented by the SBMA Financial Planning and Budget Department which showed that the airport operation has an accumulated net loss of ₱574,935,000 from CYs 1993 to 2015, which included the ₱216,678,000.00 losses when FEDEX left Subic Bay, and with

the current operating expenses, capital expenditures and debt service that are funded from the airport fees, hangar leases and royalty fees which nonetheless are not enough to cover the expenses of the airport, the going-concern in the operation of the SBIA is not ensured due to insufficiency of resources to cover all its expenses and carry out its objectives.

13.12 We recommended and Management agreed that Chairman and Administrator:

- a. review the airport's labor force by carefully regarding the current manpower situation as well as goals that each has, effecting scrutiny on details, number of employees with clear roles in department, long term trend consideration for changes, examination of work load in connection with projected modification and budget requirements;**
- b. assess the performance of the existing airport equipment, analyze their costs and benefits to determine whether to repair or replace them, whichever is more advantageous; and**
- c. carry-out well coordinate efforts with the concerned departments contributing to the implementation of the marketing strategy for the airport and clearly distinguished the scope and limitations of their roles in advancing the common goal of the agency and that of the airport.**

**PART III – STATUS OF IMPLEMENTATION
OF PRIOR YEARS' UNIMPLEMENTED
AUDIT RECOMMENDATIONS**

**PART III - STATUS OF IMPLEMENTATION OF PRIOR YEARS'
UNIMPLEMENTED AUDIT RECOMMENDATIONS**

Out of 101 audit recommendations embodied in the Annual Audit Report for CYs 2010 to 2014, 16 were fully implemented, 84 were partially implemented and one was not implemented as shown below:

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| <p>1. <i>Collections and payments in CY 2014 made thru the bank amounting to ₱47,939,338.46 and ₱292,097.60, respectively, remained unrecorded therefore, understating Cash in Bank by ₱47,647,240.86.</i></p> <p>We recommended that the Administrator instruct the Head of the Accounting Department to prepare adjusting entries to record the unbooked collections and payments.</p> | <p>CY 2014 AAR Finding No. 1</p> | <p>Management informed us that unrecorded collections and payments as of December 31, 2015 were all recorded in January 2015.</p> | <p>Fully Implemented</p> |
| <p>2. <i>The correctness of the net realizable value of Accounts Receivable-Trade amounting to ₱217,102,686.51 as of December 31, 2014 was not ascertained due to poor results of confirmations sent to locators and residents.</i></p> <p>We recommended that the Administrator:</p> <p>a) coordinate with the four locators and one resident who replied with exceptions for purposes of bringing into agreement their respective records;</p> <p>b) determine the probability or improbability of collecting the amount of ₱578,733,445.97 from the 33 residents and 12 locators who were not located in their respective leased properties;</p> | <p>CY 2014 AAR Finding No. 2</p> | <p>In response to the recommendation, Management concurs and will do their best to work it out with the four Locators on the difference of AR balance.</p> <p>For the 12 Locators who were not located in their respective properties they are leasing, Management will initiate action to relocate the whereabouts of the said Locators. If action will</p> | <p>Partially Implemented</p> <p>Partially Implemented</p> |

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| <p>c) consider requesting the write-off of said receivables from COA, in case high improbability of collection was established; and</p> <p>d) follow up the responses for the 35 lessees who failed or chose not to send their replies, notwithstanding the presumption of accuracy accorded to their respective account balances.</p> | | <p>be found futile, they will comply with COA's recommendation to request for the write-off of the receivables from the concerned Locators</p> <p>Management will initiate action in following up the reply of the confirmation letters that were sent to the 16 Locators</p> <p>With regards to the AR from Tropical Paradise which confirmed that their accounts payable to SBMA was ₱586,863.90 resulting in a discrepancy of ₱2,866.60, reconciliation of accounts were already made and the discrepancies were already figured out, the necessary adjustment were already done.</p> <p>With regards to the probability of collection of the ₱111,546,073.91 Accounts Receivables from 33 residents, AR-Housing Division in coordination with Land & Asset Management, Treasury and Legal Department were helping each other to collect the said amount. Otherwise, Management might request for write-off once they can no longer collect from the delinquent lessees.</p> | <p>Partially Implemented</p> <p>Partially Implemented</p> |
| <p>3. The accuracy and reliability of the reported balances of Accounts Payable amounting to ₱187,948,529.38 as of December 31, 2014 cannot be determined due to:</p> <p>a) non-reversion of long outstanding unliquidated balances of payables worth ₱106,220,846.05 to</p> | <p>CY 2014 AAR Finding No. 3</p> | | |

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|
| <p><i>unappropriated surplus of the general fund;</i> <i>b) difference of the amount recorded in the books of SBMA and various creditors amounting to ₱74,373,513.94;</i> <i>c) unaccounted balances reported in the accounting records amounting to ₱1,874,195.18; and</i> <i>d) inadequate functionality of the agency's computerized accounting system resulting in existence of abnormal balances amounting to ₱1,085,956.17 in the subsidiary records.</i></p> <p>We recommended that the Administrator:</p> <p>a. require the concerned account officers to assess and examine all recorded payable accounts and to prepare journal voucher to revert all accounts payable that remained outstanding for two years or more. A copy of said journal voucher certified by the Accountant and supported by a list of accounts payable reverted and amounts due each payee should be submitted to COA;</p> <p>b. require the Accounting Department to coordinate with concerned creditors especially those whose reply were favorable to SBMA to (i) request for breakdown of SBMA payables reported in the</p> | | <p>The Management replied that they will:</p> <p>a. complies and that the Payable, Cost Accounting and General Accounting Divisions will review the outstanding payable balance of concerned payee/ creditors. Once they determine that the accounts payable that remained outstanding for two years or more are appropriate to reverse, reversion of entries will be made, and they will ensure that the COA will be furnished a copy of the JEV and supporting schedules of list of accounts payable reverted and amounts due to each payee.</p> <p>b. makes necessary adjustments and will send letters to creditors with bigger recorded amount as compared to their records, requesting for the full details or breakdown of their collectibles from SBMA,</p> | <p>Partially Implemented</p> <p>Partially Implemented</p> |

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| <p>creditors' accounting records; (ii) evaluate the accuracy of information supplied by creditors; (iii) effect necessary adjustments in the books of accounts, if warranted; and (iv) inform COA of adjustments made in the accounting records as a result of the reconciliation;</p> <p>c. provides the concerned Accounting personnel with support staff from the Maintenance Department that could help in locating possible available documents at the COA stockroom and require the Accounting personnel to evaluate the validity of obligations on the basis of obtained relevant documents and, thereafter, prepare journal voucher to revert those obligations, which remained outstanding for more than two years; and</p> | | <p>make the necessary reconciliation to evaluate the validity of creditor's claim. All adjustments made will be immediately forwarded to COA.</p> <p>c. locates first the specific JEV Nos. for them to determine the source of recording. Thereafter, they will immediately collate the relevant supporting documents from COA's stock room before they can revert the unaccounted Accounts Payable</p> <p>They also explained that the Accounts payable with a total debit balance of ₱7,697,995.69 consist of the following:</p> <p>1. The ₱6,354,950.69 represents prepared checks as of August 2014 but were not released during the said period. The NGAS requires that JEV shall be prepared to record the restoration of the cash equivalent to the unreleased checks and recognition of the appropriate payable/liability account. While at the start of succeeding month, the JEV for unreleased checks shall be reversed to restore cash to the correct balance. Their present IFMS entails only released/claimed checks for posting. A JEV is prepared to record unreleased checks at the end of the month, except for the month of December and another JEV is prepared at the start of the following month for the</p> | <p>Partially Implemented</p> |

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| <p>d.direct the Accounting department to coordinate with MIS department accounting concerns affecting the use of IFMS and its functionalities including, but not limited to, the lack of account "SBMA payroll" in the selection option for debit entries and instruct both departments to come up with a common solution that could address errors caused by the system's deficiency and the solution must be able to remove from the subsidiary ledgers all abnormal positive/debit balances caused by the inadequate functionality of IFMS.</p> | | <p>reversal of previous entry.</p> <p>2. The ₱324,524.10 represents debit balance from non-individual payees/suppliers/contractors, etc. The concerned accounting employee/s will make further analysis and will make necessary adjustments thereof.</p> <p>3. The remaining balance of ₱1,018,520.90 corresponds to debit balance from individual employee. Cost Accounting Division will make reclassification of all debit balances from individual employee to "SBMA Payroll".</p> <p>4. Accounting Department and Information Technology Department will schedule a meeting to resolve the above concern. Also, Management will forward the summary of adjustments that were made due to double recording, incorrect account use and other for the years 2013 and 2014.</p> | Partially Implemented |
| <p><i>4. Payments of various claims against the agency, amounting to ₱1,203,672.11, were not supported with complete documentation, in violation of Section 4(6) of P.D. No. 1445.</i></p> <p>We recommended that the Administrator:</p> | <p>CY 2014 AAR Finding No. 4</p> | <p>In response, Management already secured a copy of COA</p> | Fully Implemented |

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| <p>a. submits the requested documents and information so that the transactions may be passed in audit pursuant to COA Circular No. 2012-001 prescribing the documentary requirements for common government expenditures;</p> <p>b. review and sign CV No. CH-14-02594 and CH-14-00025;</p> <p>c. attach booking summary/payment details for CV No. CH-14-02857 and recomputed the allowable airfare claims. Require the return/refund of the excess reimbursement equivalent to the amount of airfare of the child;</p> <p>d. checks available and latest DSA rate for the computation of allowable travel expenses;</p> <p>e. collects ₱500.00 each from the three employees concerns for the excess of allowable claims for their visa application fee;</p> <p>f. transmits to COA the Letter of Authority, LA 14-00220 and LA 14-00227 for post audit and review; and</p> <p>g. secure and submit to COA the required Official Receipt reflecting the same amount in Acknowledgment Receipt, attach the same to its corresponding vouchers.</p> | | <p>Circular No. 2012-001 dated June 14, 2012 and submitted the necessary documents and information to support the payment of the said audited transactions. OR No. 3540088 dated March 6, 2015 amounting to \$7.71 as refund by Ms. Amethya Koval and OR No. 3552849 dated March 6, 2015 amounting to \$12.34 as refund by Ms. Rhea Jane Mallari were submitted.</p> <p>Management requested to pull-out the check vouchers in order for the Approving Authority to review and sign accordingly. They will immediately provide a signed copy of the said documents.</p> <p>The booking summary/payment details was submitted and the excess reimbursement equivalent to the child airfare amounting to ₱999.00 was returned/refunded as evidenced by OR No. 3552848.</p> <p>Management will comply with the recommendation of checking the latest available DSA rate in computing allowable travel expenses.</p> <p>The concerned three employees already returned the excess allowable claims for their visa application fee as evidenced by OR Nos. 01-350014, 01-350020 and 01-350017 all dated March 9, 2015.</p> | |
| <p>5. The agency allocated funds for Gender and Development activities below 5% of total budget appropriations, contrary</p> | <p>CY 2014 AAR Finding</p> | | |

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| <p><i>to Section 33 of the General Provisions of CY 2014 General Appropriations Act (GAA), Section 36(a) of R.A. No. 9710, and Paragraph 2 and 6 of PCW/NEDA/DBM Joint Circular No. 2012-01. In addition, the appropriated budget was not fully consumed resulting in the failure to achieve the target sets in the Annual GAD Plan. Several observations were also noted in the audit of expenses.</i></p> <p><i>a. The agency allocated funds for Gender and Development activities below 5% of total budget appropriations, contrary to Section 33 of the General Provisions of CY 2014 General Appropriations Act (GAA), Section 36(a) of R.A. No. 9710, and Paragraph 2 and 6 of PCW/NEDA/DBM Joint Circular No. 2012-01.</i></p> <p><i>b. The appropriated budget for GAD programs, actions, and projects was not fully consumed, resulting in the failure of the Management to achieve the targets set in the Annual GAD Plan.</i></p> <p>We recommended that the Administrator:</p> <p>a) allot complete funding for its GAD-related and responsive programs, actions and projects in the following years to facilitate full attainment of objectives in the pursuit of gender equality and women's empowerment in the agency;</p> | No. 5 | <p>In response to the recommendation, the Management will take into account all recommendations stated in the AOM. They do realize the need to learn more about GAD Planning and Budgeting, especially on the procedures and methods of</p> | Partially Implemented |

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| <p>integrate gender in developing policies, planning, programs and projects; and (iv) assess the funding of social, rest/recreation and religious activities and seek approval from PCW on the capital outlay to be implemented, otherwise, expenditure for projects/activities without a well-defined gender issues to be addressed cannot be considered as a GAD related projects/activities and be excluded in the computation of the mandated appropriation for GAD.</p> | | | |
| <p><i>6. Various expenses charged against Extraordinary and Miscellaneous Expenses (EME) funds for the period January to December 31, 2014 amounting to ₱263,211.42 and various expenses attributed to GAD amounting to ₱138,844.40 were suspended in audit due to incomplete documentation to support the regularity and validity of the claims, contrary to Section 4(6) of P.D. 1445 and pertinent provisions of R.A. 9184</i></p> <p>We recommended that the Administrator settle the audit suspension through compliance with the requirements indicated which we will evaluate. Items suspended in audit which are not settled within ninety (90) days from receipt hereof shall become a disallowance pursuant to Section 82 of P.D. No. 1445.</p> | <p>CY 2014 AAR Finding No. 6</p> | <p>In response to the recommendation, Management submitted the requirements needed to lift audit suspension pertaining to various disbursements. Submitted documents are subject to the Auditor's evaluation.</p> | <p>Fully Implemented</p> |
| <p><i>7. Collections and payments in CY 2013 made thru the bank amounting to ₱7,769,811.23 and ₱136,752.17, respectively, remained unrecorded, thus,</i></p> | <p>CY 2013 AAR Finding No. 1</p> | | |

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|
| <p><i>understating Cash in Bank by P7,633,059.06.</i></p> <p>We recommended that Management prepare the necessary adjusting entries to record adjustments accruing at year-end and furnish COA a copy of journal entry vouchers or equivalent records to prove compliance with this recommendation.</p> | | <p>Management replied that the unbooked collections of ₱7,752,511.69 were already taken up in January 2014. As for the remaining unbooked collections of P17,299.54 pertaining to payments of unidentified clients, the Management requested the approval of the COA for the possible recording of said collections to Prior Year's Income.</p> <p>The unbooked payments of ₱26,952.17 were posted in January 2014 under JAP No. 14-01-314 (₱9,465.53), JAP No. 14-01-609 (₱3,500.64), and JAP No. 14-02-373 (₱13,986.00). For the remaining unbooked payments of P109,800.00, the Treasury Department is currently working out on securing the official receipts for said payments before the Accounting Department can record the payment.</p> | Partially Implemented |
| <p><i>8. The correctness of the net realizable value of Accounts Receivable-Trade amounting to ₱927.17 million as of December 31, 2013 was not established due to poor results of confirmations sent to locators and residents.</i></p> <p>We recommended that Management coordinate with the six (6) locators who replied with exceptions for purposes of bringing into agreement their respective records. Management was likewise advised to establish</p> | CY 2013 AARFi nding No. 2 | <p>The Accounting Department requested an extension of time, or until 30 April 2014, within which to submit the Management's comment for AR-Locators. As far as AR-Housing was concerned, the</p> | Partially Implemented |

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| <p>the probability or improbability of collecting the amount of ₱526.67 million from the 26 residents and 21 locators who were not located in their respective leased properties. In case high improbability of collection was established, the Management was advised to consider requesting the write-off of said receivables from COA. For the 48 lessees who failed or chose not to send their replies, the Management was requested to follow up their responses notwithstanding the presumption of accuracy accorded to their respective account balances</p> | | <p>Management provided the status of 26 locators whose confirmation letters came back and served. The Management further committed to follow up and collect other Accounts Receivables and informed that they would consider requesting the write-off of dormant receivables.</p> | |
| <p><i>9. Review of SBMA dispensaries' medicines, medical, dental and laboratory stock controls, usage, recording and reporting as well as the monitoring of availment of medcap benefits revealed the following deficiencies/errors:</i></p> <p><i>3.1) Medical supplies worth ₱18,468.73 acquired in prior years have expired due to lack of monitoring and control on utilization/distribution, in violation of Section 2 of P.D. 1445.</i></p> <p>We recommended that Management institute effective monitoring controls in the stocking, utilization and disposition of medical supplies to prevent further build-up of expired supplies and avoid unnecessary wastage and meaningless use of public funds. The Management was advised to require regular communication between both dispensaries to</p> | <p>CY 2013 AAR Finding No. 3.1</p> | <p>Management admitted that medical supplies mentioned in the audit observation have actually expired but countered that expiration was not because of lack of monitoring and control on utilization. According to PHSD, said items, although expired, could still be used because they could be re-sterilized by other acceptable means of sterilization like</p> | <p>Partially Implemented</p> |

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| <p>facilitate inter-transfer of medicines and/or medical supplies with nearing expiry dates for timely disposition. We also recommended that Management institute accountability measures to hold negligent personnel answerable for losses arising from the failure to implement the safeguard controls</p> <p>Auditor's Rejoinder: The Management, through PHSD, is requested to point specific cause/s which led to the expiration of medical supplies without having been issued or utilized and identify measures adopted/to be adopted to prevent similar occurrence in the future.</p> <p><i>3.2)Expired medical supplies used in the administration of medical services were billed to patients contrary to Section 10(l) of RA 9711.</i></p> <p>We recommended that Management discontinue the practice of using expired medical supplies and the charging of its equivalent costs to patients as the same may fall under acts prohibited by RA 9711. We likewise recommended the immediate and safe disposal of expired medical supplies to avoid possible re-use thereof.</p> <p>Auditor's Rejoinder: As provided in Section 10(l) of RA 9711, otherwise known as the Food and Drug Administration (FDA) Act of 2009, the sale of any health product beyond its expiration</p> | <p>CY 2013 AAR Finding No. 3.2</p> | <p>boiling, autoclaving and soaking in sterilizing solution for use in the clinics. PHSD further explained that expired medical supplies could be useful for other activities like training of staff, use in drills, and simulation exercises and could be used for other purposes not requiring sterility of the supplies such as wound irrigation, eye irrigation, etc.</p> <p>The Management, through PHSD, commented the Dispensary ethically follows medical standards and practices and would never put the safety of patients in peril. The expiry date on the supplies and materials merely guarantees the effectivity of the sterilization method used when the materials were packed but does not say the supplies and materials could not be used after the expiry date. It was likewise informed that there are certain supplies and materials such as those to be used in emergencies that the Dispensary needs to have, but have the high probability that</p> | <p>Partially Implemented</p> |

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| <p>date is prohibited. The Auditor stands by her position that charging/billing patients the equivalent cost of expired medical supplies used upon them constitutes an act that is not sanctioned by law.</p> <p>Interview with the Center for Device Regulation, Radiation Health and Research (CDRRHR) of the FDA Philippines revealed the use of expired health products such as medical devices is not encouraged unless the manufacturer submits to FDA a stability and functionality study categorically stating expired medical supplies are safe for use even beyond expiry date. It was further informed that sale of expired medical supplies to patients is a prohibited act punishable by law. The Auditor will obtain official statement from the FDA Philippines concerning this issue. Meanwhile, the Management is requested to submit clearance from FDA authorizing the use or sale of expired medical supplies.</p> <p>3.3)<i>Erroneous</i> entries in the inventory report were noted, thus, casting doubt on the accuracy of the cost of ending inventory reported at year-end.</p> <p>We recommended that Management require process owner, with assistance from the Accounting Department, to correct erroneous data included in the previous year's inventory report and to effect necessary adjustment in the books if warranted. For future reporting</p> | <p>CY 2013 AAR Finding No. 3.3</p> | <p>they will never be used.</p> <p>The PHSD Management concurred with the audit recommendation but stressed that at present, the Accounting Department has not called their attention regarding discrepancies in their report.</p> | <p>Partially Implemented</p> |

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| <p>requirements, the concerned staff was advised to carefully prepare the monthly inventory report by recording only the accurate information to provide correct and reliable figures needed in the preparation of financial statements. The Management was likewise advised to assign Accounting personnel who would be responsible for reviewing the monthly inventory report prepared and submitted by in charge personnel from dispensary.</p> <p>3.4) <i>Donations of medicines from the US Military Forces were not reported for proper accounting and recording, thus understated the inventory and income accounts at year-end.</i></p> <p>We recommended that Management require responsible personnel from both dispensaries to regularly report to the Accounting Department all medicines, medical and other supplies received through donations for proper accounting or disclosure. We also recommended that Management create a policy prohibiting the acceptance of expired health products from local or international donors in keeping with the national policy banning the proliferation of expired health products.</p> <p>3.5) <i>Quantity of stocks issued and reported in the inventory</i></p> | <p>CY 2013 AAR Finding No. 3.4</p> | <p>Management admitted receipt of medical supplies from the former US Naval Hospital and medical supplies and medicines handed to Cubi Dispensary by US Military forces without any Deed of Donation upon their pull-out. Cubi personnel responsibly made an inventory of the said items but were unaware of the reportorial requirement to the Accounting Department.</p> <p>Management informed there was no need to create another policy in SBMA to prohibit acceptance of expired medicines and supplies as they follow the BFAD regulation on donated medicines and supplies.</p> | <p>Partially Implemented</p> |

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| <p><i>report was different from quantity of stocks actually issued based on issuance slips, thus questioning the accuracy of the reported cost of ending inventory.</i></p> <p>We recommended that Management require concerned staff to correct erroneous entries in the issuance column of the inventory reports and submit the corrected report to Accounting Department to serve as basis in effecting necessary adjustment in the books of accounts. The Management was likewise advised to instruct the concerned staff to carefully prepare the inventory report so that only accurate figures are supplied to the Accounting Department.</p> | <p>AAR Finding No. 3.5</p> | <p>Management advised them personnel to carefully prepare reports of issuances matching record of supplies against the issuances.</p> | <p>Partially Implemented</p> |
| <p><i>3.6) Moving average method was not consistently applied in valuating medicines, medical and laboratory supplies, contrary to NGAS policy on inventory costing.</i></p> <p>We recommended that Management require the Accounting Department to patiently orient dispensary personnel assigned in the preparation of inventory report with the computation of cost of ending inventory using the moving average method. We also recommended that Management consistently apply moving average method in costing all inventories. Otherwise, we recommended that Management qualify its statements in the Notes to Financial Statements by fully</p> | <p>CY 2013 AAR Finding No. 3.6</p> | <p>Management commented that dispensary personnel in charge of inventories have been using the moving average method for the past years as advised by the Accounting Department. If there were discrepancies in the reports, PHSD's attention should have been called by the Accounting Department. They will ask for a re-orientation of the moving average method from the Accounting Department.</p> | <p>Partially Implemented</p> |

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| <p>disclosing the type of valuation applied to each kind of inventory to avoid giving misleading information.</p> <p>Auditor's Rejoinder: The Auditor noted the use of weighted average method in the computation of inventory cost for medical, medicines and related stocks. However, the application of the method was not consistent. Some costs were arrived at using the required method while others were valued without observing the prescribed method.</p> <p><i>3.7) Medical supplies issued by Pharmacist to requesting sections in the dispensary were recorded as outright expense, contrary to the intention of A.O. 103 directing the continued adoption of austerity measures in the government.</i></p> <p>We recommended that Management consider adopting a policy that requires accounting for and reporting of medical and laboratory supplies issued to various sections/units in the dispensary but which remain unused at the end of the year.</p> <p>Auditor's Rejoinder: The Auditor would request representation with the Department of Health and Audit Team Leaders of various government medical institutions to provide the Management with the requested best practice relating to the issue at hand.</p> <p><i>3.9) Erroneous entry in the</i></p> | <p>CY 2013 AAR Finding No. 3.7</p> | <p>Management commented that it would require the requesting sections to document the issuance of supplies to patients as the end user of the medical supplies released outright by the pharmacy. Management requested COA for best practice among government medical institution/facility regarding this matter.</p> | <p>Partially Implemented</p> |

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| <p><i>individual medical consumption report resulted in erroneous summary of medcap consumption depleting entitlement of affected employees to medcap benefits if errors remain undetected or uncorrected.</i></p> <p>We recommended that Management designate another staff who will review and correct outputs prepared by the monitoring staff. The monitoring staff should not be given access to the system allowing her to rectify erroneous entry she made. Preparation and review controls should be separately delegated for check and balance purposes. The system facility used in the monitoring of medcap consumption should be enhanced as would effectively alert the process owner of any occurrence of overused medcap benefits. Amount of Medcap benefits consumed in excess of the limit should be collected from the concerned employee.</p> | <p>2013 AAR Finding No. 3.9</p> | <p>Management replied that because of lack of personnel, occasional lapses in the entry in the Medcap occur. The Dispensary contemplates on requesting a monitoring staff who will be responsible for the check and balance of Medcap usage. The Management likewise plans to institute a "Medcap Passbook" which will serve as identification of qualified Medcap dependents and upon which the Medcap consumption would be reflected in every visit. Through this system, the employee would be informed of his Medcap balance</p> | <p>Partially Implemented</p> |
| <p><i>10. The accuracy of the reported balance of inventories at ₱112.03 million as of year-end could not be guaranteed in view of the unaccounted prior years' stock inventories amounting to ₱86.47 million.</i></p> <p>We reiterated that Management designates Accounting personnel and counterpart staff from Property Department, with the assistance and supervision of COA representative, to search for available disposal documents at the COA stockroom. If</p> | <p>CY 2013 AAR Finding No. 4</p> | <p>During the exit conference, the Management concurred with the audit recommendation and committed to clean up the inventory account</p> | <p>Partially Implemented</p> |

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| <p>despite such effort there still remains an unaccounted difference, the Management was advised to secure authority from the Commission Proper of the COA for the dropping/writing off of unaccounted balances of prior years' stock inventories.</p> <p>We further recommended that Management instruct the Accounting Department to adjust the account Spare Parts Inventory to take up the ₱5.34 million worth of located excess spare parts using the CY 2012 Inventory Report of the Inventory Committee.</p> | | | Partially Implemented |
| <p><i>11. The accuracy of the reported balance of inventories at ₱112.03 million as of year-end could not be guaranteed in view of the inclusion of non-existing inventories amounting to ₱2.36 million.</i></p> <p>We reiterated our recommendation that Management require the Accounting Department to adjust the inventory account by dropping from the book of accounts assets determined by PPMD to be non-existent. Where disposal documents are necessary to support the deletion, we advised the Management to coordinate with the COA for purposes of retrieving records at the COA stockroom. If despite such effort there still remains an unaccounted difference, the Management was advised to request authority from the Commission Proper of the COA for the dropping/writing off of</p> | CY 2013 AAR Finding No. 5 | Management agreed with the recommendation. | Partially Implemented |

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| unaccounted balances of non-existent stock inventories. | | | |
| <p data-bbox="293 407 711 604"><i>12. The Management failed to liquidate the sum of ₱110,353.50 representing advance payments made to two (2) contractors with projects contracted in prior years.</i></p> <p data-bbox="293 642 711 1178">We reiterated for the last time the recommendation to immediately settle the amount by demanding refund/restitution of the unrecovered advance payments paid to IP Santos and Associates. We informed the Management that a notice of disallowance would be issued making the officials who authorized the payment of advances but failed to recover the advances or properly monitor the recoupment of said advances from progress billings liable for the entire unrecovered amount.</p> <p data-bbox="293 1215 711 1751">Insofar as the accountability of ProConsult, Inc. is concerned, we recommended that Management establish with absolute certainty whether or not there remains an unsettled amount still collectible from the firm. If an amount remains due from ProConsult, Inc., we advised the Management to demand immediate settlement thereof. Otherwise, we recommended to effect the necessary adjustment in the books of account to correct any possible error committed.</p> | <p data-bbox="716 407 837 569">CY 2013 AAR Finding No. 6</p> | <p data-bbox="842 642 1243 772">Management already referred the cases of IP Santos and ProConsult to the Legal Department for action.</p> <p data-bbox="842 1215 1243 1917">Management noted that as for the Case of ProConsult, BAC Resolution No. 09-1013-01 dated October 13, 2009 was issued to temporarily hold in abeyance the Magsaysay Bridge Project where ProConsult is the consulting firm. The final billing issued by the company covering certain percentage of work completed at the time the project was held amounting to ₱481,552.17 was not sufficient to cover the mobilization fee for recoupment over the entire term of the project. In addition, the full amount of the final billing, net of 15% EWT, was fully applied to the remaining advance payment. No payment was actually made to</p> | <p data-bbox="1248 642 1451 705">Partially Implemented</p> <p data-bbox="1248 1215 1451 1278">Partially Implemented</p> |

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| | | ProConsult for the final billing. However, the ₱407,619.35, net of 15% EWT, was not sufficient to cover the ₱413,950.00 remaining balance of advance payment, leaving the ₱6,330.65 outstanding in the SBMA's books of accounts. The Engineering Department was able to collect the amount of ₱6,330.65 from ProConsult as evidenced by official receipt with No. 3452429 dated March 11, 2014. | |
| <p><i>13. Reliance on Management's assertion of accurate reported net book value as of December 31, 2013 at ₱25.41 billion and existence of assets at the close of the year could not be certified in view of the discrepancies of information in the Accounting and Property Records, thus, grossly affecting the fair presentation of total assets as at year-end.</i></p> <p>We reiterated that Management require both the Accounting Department and Land and Asset Management Department (LAMMD) to exert extra effort in reconciling the cost variances. The LAMMD was advised to provide reports on demolished buildings, facilities and other structures so that the Accounting Department could drop from the book of accounts the corresponding book value.</p> | CY 2013 AAR Finding No. 7 | Management agreed with the recommendation. | Partially Implemented |
| <p><i>14. The accuracy of the Work Animal account's year-end balance of ₱9.36 million was doubtful due to the inclusion of the amount ₱4.33 million representing the acquisition cost of deceased work animals, thus,</i></p> | CY 2013 AAR Finding No. 8 | | |

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| <p><i>affecting the reliability of the reported total assets as of year-end.</i></p> <p>We recommended that Management immediately determine the accountable officer responsible for filing the necessary relief from property accountability with COA. Thereafter, the Management was advised to submit the required request duly supported with complete documents required under pertinent COA rules and regulations.</p> | | <p>Management agreed with the recommendations.</p> | <p>Partially Implemented</p> |
| <p><i>15. The accuracy of the reported ending balance of Other Assets account amounting to ₱56.68 million could not be supported in view of the inclusion of non-existing peso time deposit worth ₱21.49 million.</i></p> <p>We reiterated that Management determine with finality how the peso time deposit was utilized or disposed of by the Management. In the event that anomaly in the use of the amount was established, consider the filing of appropriate charges against responsible officers and/or employees.</p> | <p>CY 2013 AAR Finding No. 9</p> | <p>Management agreed with the recommendations.</p> | <p>Partially Implemented</p> |
| <p><i>16. The accuracy and reliability of the reported balances of Accounts Payable amounting ₱157.64 million as of May 31, 2013 could not be ascertained due to (1) non-reversion of long outstanding unliquidated balances of payables worth ₱85.09 million to unappropriated surplus of the general fund, (2) discrepancies of the amount recorded in the books of SBMA and various</i></p> | <p>CY 2013 AAR Finding</p> | | |

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| <p><i>creditors amounting to ₱23.96 million (net) and \$8.74, (3) unaccounted balances reported in the accounting records amounting to ₱2.64 million, and (4) inadequate functionality of the agency's computerized accounting system.</i></p> <p><i>10.3) Non-reversion of long outstanding unliquidated balances of payables worth ₱85.09 million to unappropriated surplus of the general fund, contrary to Section 98 of P.D. 1445 and DBM/COA Joint Circular No. 99-6 dated November 13, 1999.</i></p> <p>We recommended that Management require the concerned account officers to review and analyze all recorded payable accounts and to:</p> <ol style="list-style-type: none"> 1. prepare adjusting entries to correct the erroneous double recording of entry as well as the improper set up of liability for the counterclaim filed before the court as presented in the table above; 2. prepare journal voucher to revert all accounts payable that remained outstanding for two (2) years or more. A copy of said journal voucher certified by the Accountant and supported by a list of accounts payable reverted and amounts due each payee should be submitted to COA; and 3. adopt alternative procedures such as sending confirmation letters to creditors on record in order to ascertain the validity of remaining less than two years old liabilities reported in the | No. 10.3 | Management concurred with the audit recommendation. | Partially Implemented |

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| <p>accounting records.</p> <p><i>10.4) Discrepancy of amounts recorded in the respective accounting records of SBMA and various selected creditors amounting to ₱23.96 million (net) and \$8.74.</i></p> <p>We recommended that Management immediately require the Accounting Department to (1) communicate with concerned creditors especially those whose reply were favorable to SBMA, (2) request breakdown of SBMA payables reported in the creditors' accounting records, (3) evaluate the accuracy of information supplied by creditors, (4) effect necessary adjustments in the books of accounts, if warranted, and (5) inform COA of adjustments made in the accounting records as a result of the reconciliation.</p> | <p>CY 2013 AAR Finding No. 10.4</p> | <p>Management initially sent eight (8) confirmation letters requesting the details of SBMA liabilities. As soon as responses are received, reconciliation would ensue and necessary adjustments to any favorable differences would be prepared. The COA will be informed on the result of the reconciliation.</p> | <p>Partially Implemented</p> |
| <p><i>10.5) Unaccounted balances reported in the accounting records amounted to ₱2.64 million.</i></p> <p>We recommended that Management assist the concerned Accounting personnel by providing from the Maintenance Department support staff that could help in locating possible available documents at the COA stockroom. The Accounting personnel were advised to evaluate the validity of obligations on the basis of obtained relevant documents and, thereafter, prepare journal</p> | <p>CY 2013 AAR Finding No. 10.5</p> | <p>Management concurred with the audit recommendation.</p> | <p>Partially Implemented</p> |

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| <p>voucher to revert those obligations which remained outstanding for more than two years</p> <p><i>10.6)The inadequate functionality of the agency's computerized accounting system has contributed to the existence of abnormal debit/positive balances worth ₱11.195 million as of May 31, 2013 in the subsidiary records of accounts payable.</i></p> <p>We recommended that Management direct the Accounting department to coordinate with MIS department accounting concerns affecting the use of IFMS and its functionalities including, but not limited to, the lack of account "SBMA payroll" in the selection option for debit entries. We recommended that Management instruct both departments to come up with a common solution that could address errors caused by the system's deficiency. The solution must be able to remove from the subsidiary ledgers all abnormal positive/debit balances caused by the inadequate functionality of IFMS.</p> | <p>CY 2013 AAR Finding No. 10.6</p> | <p>Management explained the ₱9,210,354.22 pertained to checks prepared as of May 2013 which were not released during said period. In compliance with NGAS, the Management prepared JEV to restore the cash equivalent of unreleased checks and set up the appropriate liability account. At the start of succeeding period, the JEV for unreleased checks was reversed to restore cash to the correct balance. The movement of the accounts were not captured by the IFMS as it lacked said functionality.</p> <p>The remaining balance of ₱1,984,678.61 represents debit balance from individual/personnel and non-individual/supplier payees amounting to ₱1,160,477.00 and ₱824,201.61, respectively. The Accounting Department will make reclassification of all debit balances from individual/personnel payees against the "SBMA Payroll". For the debit balance from non-individual/supplier payees, the</p> | <p>Partially Implemented</p> |

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| | | <p>concerned division/employee will make further analysis on individual payee account and will make the necessary adjustments thereof. Copies of the said adjustments and its respective supporting schedules will be transmitted to COA once accomplished.</p> <p>MIS Department is waiting for the approval of the purchase of test server with corresponding consultant to correct said deficiency. Temporarily, the Payroll Division processes final pay, etc. and initially recorded/accrued them under the "SBMA Payroll". The Accounting Department will subsequently prepare a JEV thereof to adjust the SL code and to avoid further SL debit balances.</p> | |
| <p><i>17. Trust funds worth P2.21 million were not fully spent for intended purposes, thus deprived employees of their salaries and allowances in violation of Section 4(3) of the P.D. 1445.</i></p> <p><i>11.4) Due to Officers and Employees – Clothing Allowance</i></p> <p>We recommended that Management require all concerned departments to determine those employees, whether delisted or active, who were entitled to U/CA but failed to collect the full amount or a portion of it. We also recommended that Management set aside fund to cover the payment of said U/CA preferably in cash for practical reason and, in the spirit of just</p> | <p>CY 2013 AAR Finding No. 11.4</p> | <p>The Management concurred with the recommendation to pay the clothing allowance of entitled employees in cash.</p> | <p>Partially Implemented</p> |

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| and equity, cause the immediate release of said fund to affected employees. | | | |
| <p><i>18. The agency has earmarked funds for Gender and Development activities below the national threshold of 5% of total budget appropriations, contrary to Section 28 of the General Provisions of CY 2013 General Appropriations Act (GAA) as reiterated in Section 4.4 of DBM/NEDA/NCRFW Joint Circular No. 2004-1, Section 36(a) of R.A. 9710, and Sections 2 and 6 of PCW/NEDA/DBM Joint Circular No. 2012-01.</i></p> <p>We recommended that Management allot complete funding for its GAD-related and responsive programs, actions and projects in the following years to facilitate full attainment of objectives in the pursuit of equality and development of women and men in the agency.</p> | CY 2013 AAR Finding No. 12 | The Management concurred with the audit recommendation. | Partially Implemented |
| <p><i>19. The Management used GAD budget for activities explicitly identified by law as non-chargeable against GAD Budget, in violation of PCW/NEDA/DBM Joint Circular No. 2.</i></p> <p>We recommended that Management, through the created SBMA-GAD Program Committee, identify concrete programs, activities and projects that are gender-related, aligned with the 30-year comprehensive perspective plan of the Philippine Plan for Gender Responsive Development (PPGD), responsive to PCW/NEDA/DBM Joint Circular where related expenses</p> | CY 2013 AAR Finding No. 13 | Management agreed with the recommendation. | Partially Implemented |

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| are properly chargeable against the GAD budget. | | | |
| <p>20. <i>The appropriated budget for GAD programs, actions, and projects were not fully consumed, resulting in the failure of the Management to achieve the targets set in the Annual GAD Plan.</i></p> <p>We recommended that Management, through the created SBMA-GAD Program Committee, exercise careful planning in identifying priority gender-issues, setting realizable targets, and designing workable activities towards achieving the set targets. The Management was likewise advised to strive to carry out the plan to its fullest extent by utilizing the budget set aside for purposes of ensuring the full implementation of the GAD Plan.</p> | CY 2013 AAR Finding No. 14 | Management commented that it would take into account all recommendations in institutionalizing and strengthening the Gender and Development (GAD) Program including the allotment of complete funding for its GAD-related and responsive programs, actions, and projects in the following years to facilitate full attainment of objectives in the pursuit of equality and development of women and men in the agency. | Partially Implemented |
| <p>21. <i>Weaknesses in the monitoring of earned leave credits of employees resulted in an inaccurate and unreliable reported balance of Accounts Payable Due to Officers – Unpaid Compensated Absences amounting to ₱154,509,257.66 as of December 31, 2013, in disregard of Sec. 111 of P.D. 1445 and Section 3(a) of GAAM Vol. II.</i></p> <p><i>Balances of leave credits earned in prior years were not reconciled with the balances forwarded in the ensuing year; hence cast doubt on the accuracy and reliability of the reported year-end balance for Accounts Payable Due to Officers – Uncompensated</i></p> | CY 2013 AAR Finding No. 15 | | |

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| <p><i>Balances.</i> <i>Monetized leave credits were recorded late in the records of the HRMD personnel.</i></p> <p>To address the internal control weaknesses pointed above, we recommended that Management:</p> <ol style="list-style-type: none"> 1) require the HRMD to review the Employee Leave Record, particularly the data for the ending balances of employees' earned leave credits as of CY 2005 that were inconsistently carried over in CY 2006. The Management should aim for a zero difference in the reconciliation of figures; 2) instruct the HRMD to coordinate with the Accounting Department for purposes of identifying paid monetization of leave credits that were not yet recorded in the Employee Leave Record; 3) direct the HRMD to make the necessary adjustment in the Employee Leave Record after reconciling of inconsistent balances and recording of unposted monetization transactions; 4) require the HRMD to prepare a logbook or similar record for purposes of monitoring requests for monetization of leave credits; 5) provide HRMD an access to IFMS functionality to view transactions showing paid/honored requests for monetization of leave credits to be used as basis in effecting adjustment of entries in the Employee Leave Record; 6) oblige the HRMD to prepare Certificate of Accumulated Leave Credits Earned for | | <p>Management explained that prior to 2006 the employee leave credits are manually entered in the individual Employee Leave Record (ELR) form. When IFMS was implemented in 2006, there was an urgent need to encode the ending balance of the 2005 into the beginning balance of the 2006. Because of this, there was no time to review the veracity of the entries in the ELR. Thus, every time the HRMD processes requests for monetization of leave credits, the department would revisit the records and make the necessary corrections, if any. However, since the pay periods from 2006 to 2013 in the IFMS had already run, any corrections made are done at the end of the ELR report to reflect the adjustments.</p> <p>Management added it would consider all the recommendations. The Deputy Administrator for Administration has already directed the concerned staff of HRMD to review the other ELR. Once ELR is finally corrected, the HRMD will issue the Certificate of Accumulated Leave Credits Earned to all staff.</p> | Fully Implemented |

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| <p>distribution to all concerned employees at the end of the year to keep the employees informed of their actual/updated earned leave credits; and</p> <p>7) require the HRMD to supply only the accurate information on the number of accumulated leave earnings of all employees as well as the equivalent value thereof for funding purposes.</p> | | | |
| <p><i>22. The Management failed to consistently monitor the compliance of locators with their contractual obligations particularly the (1) submission of annual report on the progress of investment/development commitments to be infused on leased properties, (2) posting of performance bond, (3) payment of security deposits and (4) payment of advance rental resulting in the failure of the Management (1) to fully account for the actual worth of investment/development commitments infused on the leased areas as at year-end and (2) to collect (a) performance cash bonds amounting to US\$7.23 million, exclusive of the undetermined amount of performance bond due from two locators, and ₱9.22 million, (b) security deposits amounting to US\$146,030.52 and ₱14.14 million and (c) advance rental payments amounting to US\$130,025.71 and ₱6.24 million.</i></p> <p>We recommended that Management:</p> <p>1) require BPSD, with the assistance of Engineering Department or in-house</p> | <p>CY 2013 AAR Finding No. 16</p> | <p>The Accounting Department has been re-computing the locators' security deposit and advance rental since 2012. Status of payment of said</p> | <p>Partially Implemented</p> |

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| <p>appraisal committee, to carefully evaluate and validate the reported actual accomplishments of locators taking into consideration the actual physical development/investment introduced/invested on the leased properties vis-à-vis the actual development/improvement cost declared by locators;</p> <p>2) order BPSD or BID to furnish the Accounting Department copy of the validation reports for possible inclusion of the confirmed development/investment amounts in the financial disclosure for investment property;</p> <p>3) instruct the BPSD to determine possible violations committed by locators such as but not limited to late delivery of actual development/investment commitments and/or delivery of commitments different from those agreed upon in the contract and to recommend proper sanctions/penalties if warranted;</p> <p>4) exercise remedies available to the agency as provided in the lease agreements in the event that actual breach of obligations is duly established;</p> <p>5) constitute or assign an ad hoc committee primarily responsible for the monitoring of investment/development commitment of locators and reporting thereof to the Management;</p> <p>6) require BID to persistently make a follow-up of the letters sent to other locators who have yet to submit the required progress report of</p> | | <p>accounts is reflected in the Evaluation Form on Locator's Operational Standing (EFLOS) that is required by the Regulatory Monitoring Unit (RMU). The Accounting Department does not recommend renewal of the locator's Business Permit to Operate (BPTO) if deficiencies in the payment of the said accounts are noted. Further, starting March 2014, copy of Accounting Department's evaluation will be provided to the Business Group to follow up collection and issuance of the necessary billing assessment for payment as well as to Credit and Collection Office to follow up status of payment.</p> <p>The Management is in the process of reviewing available records. However, in view of the volume of contracts and other information to be validated as well as the issues raised by COA that need to be addressed, the Management requested for two (2) months to submit their formal response.</p> | |

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| <p>investment/development commitments in their respective leased premises; 7) remind BID to submit updated status report to COA in response to this audit observation; and 8) institute and implement administrative sanctions against responsible SBMA personnel who fail to exercise the degree of care in the dispatch of duty thereby causing undue financial damage to the agency.</p> <p><i>16.a) Review of lease agreements revealed a total of 24 locators failed to post the required performance bond to cover the investment/developments commitments to be infused on leased properties.</i></p> <p>To serve the purpose for requiring the posting of performance bond and to guard the interest of the agency from empty promises of locators, we recommended that Management require all concerned locators with investment/development commitments to post performance bond following the applicable rates stated in the agency's policy. In case of continual failure of locators to abide by the policy, we recommended that Management exercise other remedies available to it including the suspension of the renewal of CRTE/RC of lessee, where applicable, as well as the imposition of penalties in accordance with the SBMA Policy on Imposition of Performance Bond and its Applicable Rates.</p> | <p>CY 2013 AAR Finding No. 16.a</p> <p>CY</p> | <p>Management agreed with the recommendation.</p> <p>Management agreed with the</p> | <p>Partially Implemented</p> <p>Partially</p> |

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| <p><i>16.b) Security deposit amounting to US\$146,030.52 and ₱14,136,474.11 remained unpaid as of September 30, 2013 in violation of Article II-Consideration of the contract of lease for security deposit.</i></p> <p>We recommended that Management require the Accounting Department to re-compute locators' unpaid security deposits and thereafter order lessees to immediately settle and pay their respective unpaid security deposits. We likewise suggested that Management enforce remedies agreed upon in the contract in the event that locators failed to comply with the order despite repeated demand for payment. We also advised the Management to religiously monitor the compliance of locators with their contractual obligations in order to protect the interest of the agency.</p> | <p>2013 AAR Finding No. 16.b</p> | <p>recommendation.</p> | <p>Implemented</p> |
| <p><i>16.c) Advance rental amounting to US\$130,025.71 and ₱6,236,164.73 remained unpaid as of September 30, 2013 in violation of Article II-Consideration of the contract of lease for advance rental.</i></p> <p>We recommended that Management require the Accounting Department to re-compute locators' unpaid advance rents and thereafter order lessees to immediately settle and pay their respective unpaid advance rents. We likewise suggested that</p> | <p>CY 2013 AAR Finding No. 16.c</p> | <p>Management agreed with the recommendation.</p> | <p>Partially Implemented</p> |

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| <p>Management enforce remedies agreed upon in the contract in the event that locators failed to comply with the order despite repeated demand for payment, including the right to eject locators from the leased property. We also advised the Management to religiously monitor the compliance of locators with their contractual obligations so as to protect the interest of the agency.</p> | | | |
| <p><i>23. The Management favored directors, officers and employees by allowing long term leases at reduced lease rates and/or authorizing deferment of rental payments until upon severance of employment with SBMA, thus prevented the agency from earning full lease income as they fell due, in violation of Section 3(e) of R.A. 3019.</i></p> <p>In view of the constitutional guarantee on non-impairment of contracts, the Management was advised to treat equally SBMA officers, employees and the general public availing of future long term leases by adopting uniform policy applicable to them. The Management was likewise advised to stop giving reduced lease rates to qualified SBMA officers or employees as the same is not only prejudicial to or unauthorized by the government but is also unfair to other stakeholders of the agency. We likewise recommended that Management determine the standard period when rental payments should be made due and payable taking into consideration the greatest</p> | <p>CY 2013 AAR Finding No. 17</p> | <p>Management noted that most of the RLAs and ATUs of the SBMA officers and employees subject matter of the AOM were executed and entered into by the SBMA pursuant to and under the old SBMA Housing Policy and prior to the effectivity of the New Housing Policy, as amended. Management informed SBMA had adopted a New Housing Policy that, in fact, as compared to the old policy, provides stricter guidelines on the provision of housing privileges. This came after the SBMA itself considered the terms and conditions of previous housing policies to be onerous and appear to unduly grant unwarranted benefits to former</p> | <p>Partially Implemented</p> |

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| <p>interest of the agency.</p> <p>Auditor's Rejoinder: The Auditor referred to lease rates applicable to SBMA officers and employees where such lease rates are further reduced depending on the performance rating of the applicant at the time of application for long term lease. Granting of further reduced lease rates may not be advantageous to the SBMA.</p> | | <p>SBMA officials, Directors and Employees. The Management presented one-by-one the innovations made to housing policy which nonetheless apply prospectively.</p> <p>The New Housing Policy was, in fact, recently amended to what is now the current policy which provided the following changes resulting to further limitations on housing privileges, to wit:</p> <p>Section A. Housing Privilege Xxx xxxxxx d. Conditions and Restrictions 2. The grantee of the housing units shall shoulder all expenses related to the maintenance and improvement of the unit such as water, cable television, garbage fees and telephone lines. <u>Power/electricity consumption up to 1,667 kilowatt-hours per month or such power consumption ceiling</u> as may be subsequently fixed by SBMA shall be free of charge. Costs incurred by the grantee for electricity/power in excess of the consumption ceiling shall be for his/her account.</p> <p>Xxx xxxxxx 8. Former SBMA officials, employees and consultants who have previously been granted long-term lease privilege shall not avail anew of their positional housing privilege and/or long-term lease option/privilege when they</p> | |

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| | | <p>are re-hired, even though the positions to which they are newly hired or newly appointed qualify them for the privilege/option. However, lease payments under their Residential Lease Agreements as well as the lease period may be temporarily suspended during the effectivity of their new term of office or service with SBMA.</p> <p>Section B. Long Term Lease Option of SBMA Directors, Officers and Employees Xxx xxxxxx</p> <p>d. Conditions and Restrictions</p> <p>1. All qualified officers and employees who garnered a cumulative term/period of employment and/or appointment with SBMA for <u>at least six (6) years</u> in the case of employees with SG-27 and below and for <u>at least three (3) years</u> in the case of employees' wit SG-28 and above including officers and directors, may be eligible for Long-Term Lease and shall be eligible to lease <u>one (1) housing unit</u> on an as is – where is basis. Xxx xxxxxx</p> <p>3. The <u>term</u> of the Residential Lease shall be for a period <u>equivalent to twice the cumulative years of service</u> of the employee and <u>may be renewed for the same period on the payment of additional rent equivalent to twelve percent (12%) of the prescribed rate of the</u></p> | |

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| | | <p>original lease.</p> <p>4. Base rent may be amortized in equal monthly installments for a period equivalent to twice the cumulative years of service of the employee.</p> <p>Accordingly, with the New Housing Policy, as amended, and for future long term leases, the SBMA assures the COA that all SBMA officials, Directors and Employees will be treated equally.</p> <p>With regard to the reduced lease rates, the Management mentioned it was made in light of Opinion No. 163, Series of 2002, issued by the Office of the Government Corporate Counsel (OGCC) which was on the premise that the reduced rates shall be available to the public and not only to SBMA officials/directors/employees and subject to COA rules and the guidelines of the Department of Public Works and Highways (DPWH) on lease of government property. Pursuant thereto, through Board Resolution No. 03-01-2618, the SBMA approved the published rates for the twenty-five (25) year leases of SBMA housing units and the same was made applicable to the general public. The reduced/published rates for long term leases of SBMA were already incorporated under the terms and conditions of the RLAs that the SBMA had executed not only with its officials, directors and employees, but also with SBF investors/individuals/entities</p> | |

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| | | <p>prior to the effectivity of the New Housing Policy, as amended. Any abrupt stoppage applying the reduced/published rates would lead to contractual violation or impairment of the provisions of the existing RLAs exposing the SBMA to numerous complaints, if not court cases. The SBMA committed to review the reduced/published rates for its long term leases and to adjust said lease rates to a realistic level, if appropriate, for future long term leases.</p> <p>The same is true with regard to fixing the standard period when rental payments should be made due and payable. The individual RLAs executed under the old SBMA Housing Policy had provided for their respective due dates of rental payments. Thus, to determine or fix a different due date may amount to a contractual violation resulting to complaints and/or court cases against the SBMA. The SBMA likewise committed to study and/or explore the possibility of fixing and/or determining a standard period for due dates of rental payments for future long term leases.</p> | |
| <p><i>24. The Management neglected to exercise its duty by failing to strictly implement the provisions of the policy into the lease contracts, in violation of Section 46(b)(3) of Book V of Executive Order No. 292.</i></p> | <p>CY 2013 AAR Finding No. 18</p> | | |

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| <p>We recommended that Management consider revising the lease agreements of concerned officers or employees to align the stipulations therein strictly in accordance with the provisions of the policy without necessarily impairing the contracts' rights and obligations. We also recommended that Management create a quality assurance team in charge of reviewing the stipulations in the lease contracts and monitoring compliance and consistency of contract stipulations with the policy. The Management was also advised to impose sanctions against officers or employees who neglect in the performance of their respective duties causing unnecessary damage or injury to any party, including the SBMA.</p> <p>Auditor's Rejoinder:</p> <p>With respect to COA's observation on granting same housing units in the RLAs as in the ATUs to Ms. Quito, Mr. Evidente, Jr., Mr. Tolentino and Mr. Visey, the Auditor noted the RLAs were approved after the New Housing Policy, as Amended took effect. The Auditor did not encounter any provision in the old Housing Policy which provided for the application of the provisions of old Housing Policy even to RLAs approved after the New Housing Policy, as amended became effective.</p> <p>As to Ms. Aguilar's posting of down payment, the Management claimed the payment was made</p> | | <p>Management commented that the grant of housing privilege on the basis of the position of the SBMA employee as well as the prohibition on subleasing and assignment of lease within three (3) years would not apply to Mr. Vicente A. Evidente, Jr., Ms. Anna Joy T. Quito, Mr. Vicente J. Tolentino and Mr. Felix A. Visey whose ATUs were issued prior to the effectivity of the New Housing Policy, as amended, which was implemented on January 2009.</p> <p>For the RLA of Ms. Aguilar, the Management explained that COA may have overlooked the fact that the date of execution of her RLA and the time of Ms. Aguilar's payment are one and the same since her RLA required her to pay one (1) month rent upon the signing of the agreement which was on August 17, 2010. Accordingly, she had paid the required down payment in the amount of \$256.90 in its equivalent in Philippine Peso on August 17, 2010, which was the time of execution/signing of her RLA with the SBMA. Ms. Aguilar also paid for the penalty covering the period of September 2010 to January 28, 2014 in the amount of \$105.33 in its equivalent in Philippine Peso at the time of payment.</p> <p>Moving on to the lease terms of the RLAs of Ms. Aguilar, Ms. Quito, Mr. Evidente, Jr., Mr. Visey and Mr. Tolentino, which provide for a 50-year lease term and the RLA of Ms. Josephine</p> | Partially Implemented |

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| <p>at the time of execution of the contract on August 17, 2010. However, based on accounting records, the down payment of US\$256.90 was made not on August 17, 2010 but on February 18, 2014 after the Auditor issued the AOM as evidenced by OR No. 01-214100. As a matter of fact, Ms. Aguilar would not be required to pay penalty worth US\$105.33 covering the period September 2010 to January 28, 2014 had she really paid the down payment on August 17, 2010.</p> | | <p>Ivy Alipoon, which provides for a 48-year lease term, the Management pointed that the RLA with Ms. Aguilar was submitted to the SBMA Board Housing Committee for deliberation and following recommendations to the SBMA Board of Directors, the latter approved Ms. Aguilar's request/proposal as covered by a separate Board Resolution No. 10-03-3582 dated March 19, 2010 for the 50-year lease term. On the other hand, in the cases of Ms. Quito, Mr. Evidente, Mr. Visay and Mr. Tolentino, considering that their ATUs were issued by the SBMA prior to the effectivity of the New Housing Policy, as amended, the provisions of the old SBMA housing policy would apply allowing them the 50 years' term of lease. With respect to the term of the lease of Ms. Alipoon, pursuant to the New Housing Policy, as amended, which fixes the term of the RLA for a period equivalent to twice the cumulative years of service of the employee, and may be renewed for the same period, Ms. Alipoon had garnered twelve (12) years of cumulative service with the SBMA and twice the said period is twenty-four (24) years. Thus, the renewal thereof would make the term of the Ms. Alipoon's lease to 48 years.</p> <p>The Management committed to undertake the creation of a Quality Assurance Team to be in charge of reviewing the</p> | |

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| | | stipulations in SBMA's RLAs and monitoring compliance and consistency with stipulations in with the New Housing Policy, as amended, and the old housing policy particularly on whom these continue to apply. | |
| <p>25. <i>The Management failed to monitor compliance of officers and employees with their contractual obligations, thus, compromised the best interest of the agency.</i></p> <p><i>Non-payment of security deposit contrary to stipulations in the lease agreement</i></p> <p><i>Non-posting of insurance policy contrary to stipulations in the lease agreement</i></p> <p><i>Non-posting of down payment contrary to stipulations in the lease agreement</i></p> <p>We recommended that Management require all concerned officers and employees to immediately settle or fully pay the required security deposits, secure the necessary insurance policy, and demand down payment in faithful compliance with the lease agreements. We likewise recommended that Management create a quality assurance team who will monitor lessees' compliance with their contractual obligations. In the event lessees continue to neglect on their respective duties despite demands, the Management was advised to exercise its remedies written in the contract.</p> | CY 2013 AAR Finding No. 19 | <p>Considering that payments were already made for required security deposits, down payment (including penalty) and the insurance policies were already renewed and updated, the SBMA posited it had substantially complied with the audit recommendations.</p> | Partially Implemented |

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| <p>Auditor's Rejoinder: The Auditor appreciated Management's compliance with the audit recommendation particularly its effort in collecting unpaid security deposit and down payment from concerned officers and employees. However, the Auditor would like to examine the insurance policies submitted by concerned individuals in compliance with our recommendation. The Management is respectfully requested, therefore, to cause the submission of certified copies of insurance policies submitted.</p> | | | |
| <p><i>26. The validity of claims for meal and other reimbursements amounting to at least ₱107,210.96 could not be ascertained in view of non-submission of complete documentation necessary to execute independent verification, contrary to Section 4(6) of Presidential Decree (P.D.) No. 1445.</i></p> <p>We recommended that Management submit the requested documents and/or information in compliance with pertinent auditing rules and regulations.</p> | <p>CY 2013 AAR Finding No. 20</p> | <p>On June 2, 2014 Matrix showing details of expenses that were incurred by Directors Gerald Sam Del Rosario, Ramon Diez-Sesdoyro, and Alfonso S.P. Siapno for their reimbursements that were observed to be lacking in sufficient information were forwarded to COA and received by the latter on June 3, 2014</p> | <p>Partially Implemented</p> |
| <p><i>27. The SBMA spent approximately P23.38 million for the CY 2007 RFID Project which never became operational owing to the Management's (1) lack of preparation to implement</i></p> | <p>CY 2013 AAR Finding No. 26</p> | | |

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| <p><i>the Project as evidenced by the failure to (a) appoint Project Coordinator responsible for the coordination of activities, resources, and information; (b) assign roles, responsibilities and accountabilities to concerned departments and (c) formulate policies and procedures necessary in managing the post-implementation phase of the Project; (2) lack of consultation with concerned departments in drafting the terms of reference for the procurement of RFID-related IT equipment; (3) non-compliance of Contractor with its contractual obligations particularly the commissioning of various equipment and application system according to the intended design and purpose; and (4) absence of strong willpower to make the Project work as evidenced by the Management's inaction to protect the interest of the agency despite knowledge of the causes leading to the failure of the Project.</i></p> <p><i>No Project Coordinator was appointed to oversee the progress and completion of the RFID Project. Instead, the Management instructed the MIS Head to fill in the gap and assume the duty of a Project Coordinator for the entire Project. However, certain errors and lapses of duty were noticed while the MIS Head acted as Project Coordinator. Meanwhile, the RFID Project Team constituted to facilitate the implementation of the Project failed to carry out its mandate.</i></p> | | | |

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| <p><i>The Management failed to assign the respective roles and responsibilities of various departments involved in the operation of the security system. On the other hand, accountability over most of IT equipment for the Security Systems Project was entrusted to a single individual.</i></p> <p><i>The Management failed to formulate policies and procedures needed to manage the post-implementation phase of the Project.</i></p> <p><i>Lack of consultation with concerned departments in drafting the terms of reference for the procurement of RFID-related IT equipment.</i></p> <p><i>Non-compliance of Contractor with its contractual obligations particularly the commissioning of various equipment and application system according to its exact design and purpose and the integration of the Security Systems with the enhanced SBMA Metropolitan Area Network</i></p> <p><i>Absence of strong willpower to make the Project work as evidenced by the Management's inaction to protect the interest of the agency despite knowledge of the causes leading to the fall of the Project.</i></p> <p>We recommend that Management:</p> <p>1. consider filing appropriate</p> | | <p>(1) Administrative charges has</p> | <p>Partially</p> |

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| <p>charges against:</p> <p>a. Messrs. Jeffrey C. Salazar and Rani C. Cruz for accepting the project and certifying its completion despite knowledge to the contrary, thus, compromised the interest of the agency;</p> <p>b. members of the RFID Project Team for failure to fulfill their tasks which inaction is equivalent to nonfeasance amounting to neglect of duty, thus, contributed to the failure of the Project causing serious damage to the agency;</p> <p>c. drafter of the terms of reference for the RFID Project for failure to consult with and confirm the IT requirements of OSD, thus, facilitated the incurrence of unutilized property resulting in wastage of public funds;</p> <p>d. Atty. Martinez et al. for failure to finalize and submit policies and procedures necessary for the operation of the systems and post implementation of the Project;</p> <p>e. PMTI for failure to commission the various IT equipment according to the intended security system design and for failure to deliver several IT equipment on time, which failure amounted to breach of contract; and</p> <p>f. former Administrator Armand C. Arreza for failure to exercise the degree of diligence required of him under the given circumstances.</p> <p>2.coordinate with PS-DBM for purposes of imposing and collecting liquidated damages from PMTI;</p> <p>3.instruct MIS, TCD, LED, IAS,</p> | | <p>been instituted against Rani C. Cruz</p> <p>(2) Investigation against other employees that may have been negligent or guilty for malfeasance is on-going before the Office of the DA for Legal affairs</p> <p>(3) Requested the NBI and COA to investigate for some evidence gathering against responsible SBMA, DBM and PMTI personnel</p> <p>(4) Coordinating with the DBM Procurement Service for records to institute possible case against PMTI</p> | <p>implemented</p> |

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| <p>PPMD and other concerned departments to re-inventory RFID-related equipment stored in Building N and Seaport Building and those deployed at the gates and elsewhere for purposes of accounting and recording in the books of accounts;</p> <p>4.require incumbent officials who were involved in the procurement of RFID-related IT equipment to immediately file the necessary request for relief from accountability for the missing items;</p> <p>5. assign accountability over remaining IT equipment to the departments presently in custody over said items to prevent further loss thereof; and</p> <p>6.consider disposing off unserviceable IT equipment for purposes of recovering portion of the investment cost spent in procuring the items.</p> | | | |
| <p><i>28. The correctness of the net realizable value of Accounts Receivable-Trade amounting to ₱826.56 million as of December 31, 2012 was not be established due to poor results of confirmations sent to locators and residents.</i></p> <p>We reiterated the previous audit recommendation which required that Management should patiently conduct the necessary reconciliation on the noted disagreement between the SBMA and locators' records.</p> <p>Management was likewise advised to initiate action in following up the 172 confirmation requests which</p> | <p>CY 2012 AAR Finding No. 2</p> | <p>The Management agreed to initiate action in following up the reply to the 172 confirmation letters sent in 2012 which were not responded to and committed to update COA of the status of the 22 confirmation letters that were returned/unserved. The Management likewise submitted a copy of the proposed policy in establishing</p> | <p>Partially implemented</p> <p>Management is yet to inform the COA if:</p> <p>1.reconciliation between SBMA records and the records of</p> |

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| <p>were not responded to and investigate the causes of unserved/ returned 22 confirmation letters to locators and residents.</p> <p>Moreover, a request for write off of uncollectible accounts was likewise suggested to the Management. The request should be supported with documents showing best effort exerted to collect the uncollectible accounts. The request should also come with a cover letter from the head of the agency requesting the write off of bad debts, upon the authority and instruction of the governing board.</p> | | <p>allowance for doubtful accounts and the write off. Both policies are awaiting approval of the SBMA Board of Directors.</p> | <p>locators who responded with exceptions was conducted, and the results thereof;</p> <p>2. follow-up of confirmation letters sent to residents and locators who failed to send in their replies was conducted, and the results thereof.</p> |
| <p><i>29. The accuracy of the reported balance of inventories at ₱111.48 million as of year-end is doubtful in view of the unaccounted prior years' stock inventories amounting to ₱91.83 million, unreconciled balance of current year's stock inventories amounting to ₱1.99 million, unverified balance of inventories at ₱4.65 million and doubtful existence of stocks worth ₱2.36 million.</i></p> <p><i>3.a) Unaccounted prior years' stock inventories amounting to ₱91.83 million.</i></p> <p>We recommended that Management designate Accounting personnel and counterpart staff from Property Department, with the assistance and supervision of COA representative, to do the search of available disposal documents at the COA stock room starting</p> | <p>CY 2012 AAR Finding No. 3</p> <p>CY 2012 AAR Finding No. 3.a</p> | <p>The Management agreed to adopt the audit recommendation.</p> | <p>Partially implemented</p> <p>The unaccounted prior years' stock inventories were reduced</p> |

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| <p>on all Fridays of June and July 2013 or until such time all vouchers have been completely examined. If, despite this effort, there still remains an unaccounted difference, the Management was advised to secure authority from the Commission Proper of the Commission on Audit for the dropping/writing-off of unaccounted balances of prior years' stock inventories.</p> <p>We also recommended that Management require the Accounting Department to examine its subsidiary ledger for unaccounted spare parts inventory and trace the excess spare parts worth ₱5.34 million located by the Inventory Committee at the Transportation Department. Once traced, the Management was advised to reclassify by transferring the traced amount from the Unaccounted Spare Parts Inventory account to Spare Parts Inventory – Stocking account. If nothing or only a small portion of the ₱5.34 million excess spare parts was listed in the ledger for unaccounted spare parts inventory, the Management was advised to prepare the necessary journal entries to book the entire ₱5.34 million excess spare parts or that portion which remained unrecorded in the subsidiary ledger for Spare Parts Inventory – Stocking.</p> <p><i>3.b) Unreconciled balance of current year's stock inventories amounting to ₱1.99 million.</i></p> | <p>CY 2012 AAR Finding</p> | | <p>to ₱86.47 million broken down as follows:</p> <ol style="list-style-type: none"> 1. Office supplies and materials – ₱18,944,296.44 2. Medical, dental and laboratory supplies – ₱2,092,075.52 3. Fuel, Oil and Lubricants – ₱20,957,080.24 4. Maintenance supply inventory – ₱7,804,145.05 5. Spare Parts – ₱42,008,742.35 less located spare parts worth ₱5,337,792.86 <p>On-going reconciliation of records between PPMD and Accounting Department.</p> |

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| <p>We recommended that Management require the Accounting and Property personnel handling the inventory accounts to settle the computed current year's inventory variances as soon as possible to avoid the accumulation of discrepancies over time. Once done, a report showing the reconciliation of accounts should be furnished to COA for purposes of effecting adjustments in its file. Likewise, the Accounting and Property account officers responsible for the accounts "Maintenance Supply Inventory-CIP" and "Excess Materials Inventory from Completed Projects" were encouraged to meet, discuss and settle unreconciled reports and thereafter report to COA all adjustments identified in their meeting.</p> | No. 3.b | <p>Management, thru its Accounting Department, replied that the Accounting and Property personnel handling the inventory accounts are still in the process of reconciling their respective records. One of their findings noted in the inventory reconciliation is the non-inclusion of ₱510,849.75 worth of stocks transferred by the defunct subsidiary Freeport Services Corporation (FSC) to SBMA in the ending balance of Property Record, details as follows:</p> <table> <tr> <th>Inventory Account</th> <th>Amount</th> </tr> <tr> <td>Office Supplies and Materials</td> <td>₱ 157,055.20</td> </tr> <tr> <td>Fuel, Oil and Lubricants</td> <td>24,901.55</td> </tr> <tr> <td>Maintenance Supplies</td> <td>328,893.00</td> </tr> <tr> <td>TOTAL</td> <td>₱ 510,849.75</td> </tr> </table> <p>The Accounting personnel in charge of accounts Maintenance Supply Inventory-CIP and Excess Materials Inventory from Completed Projects have requested from their counterpart account officers in the Maintenance Division of the Property Department for the details of Property record balance in order to reconcile it with the balance per Accounting record.</p> | Inventory Account | Amount | Office Supplies and Materials | ₱ 157,055.20 | Fuel, Oil and Lubricants | 24,901.55 | Maintenance Supplies | 328,893.00 | TOTAL | ₱ 510,849.75 | <p>Partially Implemented</p> <p>Reconciliation , Inventory on-going</p> |
| Inventory Account | Amount | | | | | | | | | | | | |
| Office Supplies and Materials | ₱ 157,055.20 | | | | | | | | | | | | |
| Fuel, Oil and Lubricants | 24,901.55 | | | | | | | | | | | | |
| Maintenance Supplies | 328,893.00 | | | | | | | | | | | | |
| TOTAL | ₱ 510,849.75 | | | | | | | | | | | | |
| <p>3.c) Unverified balance of inventories at ₱4.65 million.</p> | <p>CY 2012 AAR</p> | | | | | | | | | | | | |

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| <p>We recommended that Management require the Accounting and Property personnel handling the inventory accounts to patiently and diligently identify in their respective records those inventories that have been issued directly to requisitioning units and carefully determine those that remained unconsumed and those that have already been used up as of year-end for purposes of recording appropriate asset and expense amounts. The Accounting Department was advised to gather disposal documents to support reduction in the ending balance of the account "Inventory-Direct Issuance" by ₱60,138.76. The concerned personnel were requested to keep the COA informed of new developments affecting the accounts' balances.</p> <p>For similar transactions in the future, we recommended that Management require both Accounting and Property Departments to maintain common point of reference, such as Purchase Order Number, for purposes of facilitating reconciliation of records. The Property Department was likewise advised to furnish Accounting Department, on a quarterly basis or as often as the conduct of every physical count is completed, copies of consumption report of directly issued stocks so as to keep the Accounting records updated. Failure of the Property Department to deliver this</p> | <p>Finding No. 3.c</p> | <p>Management commented, through its Accounting Department, that in order for them to recognize the expense portion amounting to ₱60,138.76 of the ₱168,558.90 directly issued spare parts, the Accounting Department already sent a memorandum dated March 20, 2013 to the Procurement and Property Management Department (PPMD) to provide them the Requisition and Issuance Slip (RIS) and Waste Material Report. The Management agreed to comply with the rest of the audit recommendations.</p> <p>The PPMD agreed to adopt the audit recommendation to settle the computed current year's inventory variances as soon as possible in order to avoid accumulation of discrepancies over time, to continuously submit to the Accounting Department, on a weekly basis, the original copies of consumption report of directly issued stocks known as the requisition and issue slip (RIS) as well as the Report of Supply and Materials Issued (RSMI) so as to update the Accounting records, to furnish them copy of physical count report whenever completed and to work with the accounting personnel to maintain common point of reference such as the Purchase Order Number along with the Inspection and Acceptance Report (IAR) in order to facilitate reconciliation of records</p> | <p>Partially Implemented</p> <p>Reconciliation , Inventory on-going</p> |

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| <p>service should merit a sanction.</p> <p>3.d) <i>Doubtful existence of stocks worth ₱2.36 million.</i></p> <p>We recommended that Management require the concerned Accounting and Property personnel, with the assistance and supervision of COA staff, to search for available disposal documents at the COA stock room starting on all Fridays of June and July 2013 or until such time all vouchers have been completely examined. If, despite this effort, there still remains an unaccounted difference, the Management was advised to request authority from the Commission Proper of the Commission on Audit for the dropping/writing off of unaccounted balances of non-existent stock inventories.</p> | <p>CY 2012 AAR Finding No. 3.d</p> | <p>Management concurred with the audit recommendation.</p> | <p>Partially Implemented</p> <p>Reconciliation, Inventory on-going</p> |
| <p>30. <i>Reliance on Management's assertion of accurate reported net book value as of December 31, 2012 at ₱25.90 billion and existing physical assets at the close of the year could not be certified in view of the discrepancies of information in the Accounting and Property records, thus, grossly affecting the fair presentation of total assets as at year-end.</i></p> <p><u>Land</u></p> <p>4.a) <i>The discrepancy in the total land area of the agency's real estate property per Accounting and Property records remained unchanged at 1,013.22 hectares.</i></p> <p>We reiterated our previous</p> | <p>CY 2012 AAR Finding No. 4</p> <p>CY 2012 AAR Finding No. 4.a</p> | <p>The Management had created a</p> | <p>Partially</p> |

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| <p>recommendation that the Accounting Department and LAMD should closely and constantly coordinate with each other all developments pertaining to asset's valuation, existence, and disclosures so that only fair and reliable information are recorded in the ledgers/folio and subsequently presented in the financial statements. The LAMD was advised to pursue the agency's request for reconstruction pending before the DENR as such is deemed vital in bringing the records close to reality. The Accounting Department, on the other hand, was requested to constantly follow-up with the LAMD new developments concerning the request. Once information is available, both departments were instructed to devote more time in reconciling records' differences to avoid a repetition of similar audit finding in the future.</p> | | <p>special team for the purpose of reconciling the records between the Accounting Department and LAMD under Office Order No. 12-01-0041 dated Dec. 27, 2011. Since June 2012, twice every week, representatives from each concerned department take time to inventory, value and check the existing fixed asset of SBMA. However, due to uncontrolled events like unavailability of vehicle, weather condition and unavailability of personnel, the supposed twice-a-week schedule was hampered. Nonetheless, the actual inventory taking had resumed in March 2013.</p> | <p>Implemented</p> <p>Reconciliation , Inventory on-going</p> |
| <p><u>Land Improvements and Buildings and Other Structures</u></p> <p>4.b.1) <i>The discrepancy of ₱3.295 billion combined cost of land improvements and buildings and other structures per Accounting and Property records remained unchanged.</i></p> <p>4.b.2) <i>The following significant audit observations, which overstated the PPE account to as much as ₱1.113 billion and disclosed during the CY 2011 special interim audit, still subsisted during the current year audit</i></p> | <p>CY 2012 AAR Finding No. 4.b</p> | | |

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| <p>We reminded the Management that there is no solution better than constant communication and coordination among concerned offices and personnel. We reiterated that the Accounting Department and LAMD should seriously exert extra effort and allot more time in reconciling the cost variances. The LAMD should immediately furnish the Accounting Department reports on incurred improvement costs to enable the latter to effect the proper capitalization. The LAMD, in coordination with PPMD, was likewise advised to provide reports on demolished buildings, facilities and other structures so that the Accounting Department could drop from the book of accounts the corresponding book value.</p> | | <p>Management will schedule a meeting with the LAMD and discuss the report on demolished buildings. The Accounting Department will immediately adjust the records once said report is submitted by the LAMD.</p> | <p>Partially Implemented</p> <p>Cost and accumulated depreciation of unbooked demolished buildings was reduced by ₱197,575,808.48 and ₱177,818,227.63 arrived at as follows:</p> <p>From non-fully depreciated Building and Structures: Cost – ₱186,604,321.92 Dep – ₱167,943,889.73</p> <p>From fully depreciated B&S: Cost – ₱10,971,486.56 Dep – ₱9,874,337.90</p> <p>Source: JGL dated 8/27/13 as confirmed by the account officer per telephone conversation of 2/27/14.</p> <p>On-going</p> |

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| | | | reconciliation records |
| <p><u>Equipment and Machinery</u></p> <p>4.c.) <i>The accuracy of the account's reported net book value at P659 million as of December 31, 2012 was doubtful and the existence of declared assets could not be ascertained in the absence of common reference to identify the properties and facilitate full inventory thereof, thus, affecting the reliability of the account</i></p> <p>We recommended that Management require the Accounting Department and PPMD to continue the already started action in reconciling their respective records. We also suggested that Management require the PPMD to furnish the Accounting Department copies of records of disposal such as Inventory and Inspection Report and auction sale to effect the necessary book adjustments.</p> | <p>CY 2012 AAR Finding No. 4.c</p> | <p>The Management stated that the Office Order No. 12-01-0053 dated January 27, 2012 created the Inventory Committee Team for the purpose of reconciling the records of the PPMD and the Accounting Department. Due to limited resources of SBMA, the volume and location of the properties involved were factors that contributed to the delay in the inventory taking of movable properties. The Management, however, assured that any finding after the inventory taking would be recorded or adjusted accordingly in the book of accounts</p> | <p>Partially Implemented</p> <p>Reconciliation , Inventory on-going</p> |
| <p>31. <i>The accuracy of the balance of Other Assets in the amount of P52.3 million was doubtful due to the inclusion of missing time deposit and cash on hand and loss/unaccounted assets amounting to P25.09 million.</i></p> <p><u>Arts, Archeological Specimen and Other Exhibits</u></p> | <p>CY 2012 AAR Finding No. 5</p> | | |

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| <p>5.b) <i>The correctness of the reported balance of ₱3,517,000.00 as of December 31, 2012 could not be established due to incomplete records to support the composition of the account, thus, affecting the reliability of the total assets as at year-end.</i></p> <p>We recommended that Management require its Appraisal Committee or Inventory Committee to assess the ten (10) paintings taking into consideration their physical condition and, thereafter, recommend valuation adjustment, if warranted. It was further recommended that Management require the Inventory Committee to prepare Property Acknowledgment Receipt for the three (3) paintings and locate the unaccounted ₱1.017 million worth of art works and exhibits. The Inventory Committee was also instructed to document its efforts exerted in searching for the unaccounted art works. If the search proved futile, we recommended that Management request from COA a possible write-off of the unaccounted balance from the books.</p> <p><i>Work</i> <i>Animals</i></p> <p>5.c) <i>The accuracy of the account's year-end balance of ₱8,667,096.08 was doubtful due to the inclusion of ₱4,737,363.57</i></p> | <p>CY 2012 AAR Finding No. 5.b</p> <p>CY 2012 AAR Finding</p> | <p>The amount of ₱3,517,000.00 under the said account is composed of the following:</p> <table border="1"> <tr> <td>10 mural paintings by Rene Robles valued at ₱350,000 each</td> <td>₱ 3,500,000.00</td> </tr> <tr> <td>Painting, Wild Orchid</td> <td>2,000.00</td> </tr> <tr> <td>Painting, Blooming</td> <td>10,000.00</td> </tr> <tr> <td>Painting, MiangaoOldCh urch</td> <td>5,000.00</td> </tr> <tr> <td>TOTAL</td> <td>₱ 3,517,000.00</td> </tr> </table> <p>The above total value of the paintings is reflected in the SBMA books. Management submitted copy of Property Acknowledgment Receipts (PAR) of Mr. Alfredo R. Suero Jr. as proof of custody of the 10 mural paintings. The PPMD is still validating the location of three (3) other paintings. They will immediately furnish us with the copy of the PAR once the PPMD has located the remaining three (3) paintings.</p> | 10 mural paintings by Rene Robles valued at ₱350,000 each | ₱ 3,500,000.00 | Painting, Wild Orchid | 2,000.00 | Painting, Blooming | 10,000.00 | Painting, MiangaoOldCh urch | 5,000.00 | TOTAL | ₱ 3,517,000.00 | <p>Partially Implemented</p> <p>Management is yet to provide COA copy of the PAR for MiangaoOldC hurch painting. PARs for Wild Orchid and Blooming were presented.</p> |
| 10 mural paintings by Rene Robles valued at ₱350,000 each | ₱ 3,500,000.00 | | | | | | | | | | | | |
| Painting, Wild Orchid | 2,000.00 | | | | | | | | | | | | |
| Painting, Blooming | 10,000.00 | | | | | | | | | | | | |
| Painting, MiangaoOldCh urch | 5,000.00 | | | | | | | | | | | | |
| TOTAL | ₱ 3,517,000.00 | | | | | | | | | | | | |

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| <p><i>acquisition cost of deceased work animals and exclusion of ₱260,000.00 animal offspring and donations and ₱3,250,000.00 worth of ten (10) cavalry horses procured in CY 2010, thus, affecting the reliability of the reported total assets as of December 31, 2012.</i></p> <p>We recommended that Management prepare the necessary adjusting and correcting entries to take up the additions to and deductions from the account in order to reflect a fair presentation of the actual balance at year end</p> <p>We also recommended that Management perform the following suggested procedures to include offspring and donations in the Work Animal account.</p> <p>1. Determine appraised value for horses "Quarter" and "Waco".</p> <p>2. Prepare the following entries to record offspring and donations:</p> <table> <tr> <td>Work Animal</td> <td>₱260,000.00*</td> <td></td> </tr> <tr> <td>Miscellaneous Income</td> <td></td> <td>150,000.00</td> </tr> <tr> <td>Income from Grants and Donations</td> <td></td> <td>110,000.00*</td> </tr> </table> <p>*to be adjusted upon availability of the appraised value for horses "Quarter" and "Waco" *₱260,000.00+₱3,250,000.00</p> <p>3. Prepare the following entries to record the procurement of cavalry horses, loss of six</p> | Work Animal | ₱260,000.00* | | Miscellaneous Income | | 150,000.00 | Income from Grants and Donations | | 110,000.00* | No. 5.c | <p>On the non-booking of the offspring of work animals, Management will coordinate with the LED to request the assistance of the SBMA veterinarian/consultant to appraise the subject animals and use his appraisal in booking the offspring of the work animals.</p> <p>On the non-booking of the ₱3.25 million worth of horses, SBMA cannot book the ten (10) horses for they are subject to ND No. 2012-002 that requires several documentations prior to booking of the said animals. They are yet to secure the official receipt which is necessary for the booking of the said horses.</p> <p>The Accounting Department has made the summary of work animals that should be booked. They will coordinate with LED and PPMD for the fair value of the unbooked work animals for recording purposes.</p> | <p>Partially Implemented</p> <p>1. Cost of deceased horses and dogs not derecognized from books amounting to ₱4,737,363.57 was reduced to ₱4,335,876.77 accounted as follows:</p> <p>Horses:</p> <p>Tiray- ₱21,000.00 Jack- ₱22,000.00 Sonia- ₱25,000.00 Total – ₱66,000.00</p> <p>Dogs:</p> <p>Marco- ₱180,123.17 Blondie – ₱45,363.63 Darby- ₱50,000.00 Eyke – ₱60,000.00 Total – ₱335,486.80</p> |
| Work Animal | ₱260,000.00* | | | | | | | | | | | |
| Miscellaneous Income | | 150,000.00 | | | | | | | | | | |
| Income from Grants and Donations | | 110,000.00* | | | | | | | | | | |

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| <p>horses, and the set-up of accountability of accountable officers for the loss, through death, of said six cavalry horses:</p> <table><tr><td>Work Animal</td><td>₱3,250,000.00</td><td></td></tr><tr><td>Due from NGOs/ POs Suppliers</td><td></td><td>3,250,000.00</td></tr></table> <p>Reference: (Ref: APV # 09-12-0185 – JMG Horse Equipment Trading & APV # 09-12-0186 – Calbayar Trading)</p> <table><tr><td>Loss of Assets</td><td>₱1,950,000.00</td><td></td></tr><tr><td>Work Animal</td><td></td><td>₱1,950,000.00</td></tr></table> <table><tr><td>Due from officers and employees</td><td>FMV</td><td></td></tr><tr><td>Other Deferred Credits</td><td></td><td>FMV</td></tr></table> <p>Finally, we recommended that Management ensure close coordination between the Accounting Department, PPMD and LED regarding the death, donation, and birth of work animal for monitoring and recording purposes. We advised the Management to impose disciplinary sanctions against employees who fail in the discharge of their respective duties.</p> <p><i>Missing Peso Time Deposit</i></p> | Work Animal | ₱3,250,000.00 | | Due from NGOs/ POs Suppliers | | 3,250,000.00 | Loss of Assets | ₱1,950,000.00 | | Work Animal | | ₱1,950,000.00 | Due from officers and employees | FMV | | Other Deferred Credits | | FMV | | | <p>2. Cost of ten cavalry horses for ₱3.25 million fully booked.</p> <p>Cost of six deceased cavalry horses at ₱1.95 million transferred to Due from Officers and Employees account</p> <p>3. Cost of offspring and donated work animals already booked.</p> <p>The acquisition cost for horses that died while in the care of engaged contractors could not be reclassified to receivables account in view of the difficulty in pointing the accountable officer responsible for requesting relief from property accountability with COA.</p> |
| Work Animal | ₱3,250,000.00 | | | | | | | | | | | | | | | | | | | | |
| Due from NGOs/ POs Suppliers | | 3,250,000.00 | | | | | | | | | | | | | | | | | | | |
| Loss of Assets | ₱1,950,000.00 | | | | | | | | | | | | | | | | | | | | |
| Work Animal | | ₱1,950,000.00 | | | | | | | | | | | | | | | | | | | |
| Due from officers and employees | FMV | | | | | | | | | | | | | | | | | | | | |
| Other Deferred Credits | | FMV | | | | | | | | | | | | | | | | | | | |

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| <p>5.d) <i>The existence of the reported peso time deposit amounting to ₱21.49 million was doubtful due to absence of accounting documents and non-availability of bank records to support the amount.</i></p> <p>We recommended that Management create a team which would be responsible in locating available documents in the Accounting and COA stockrooms. We also recommended that Management allow members of the ad hoc team to render overtime services during Saturdays of April and May 2013 where COA team may be available to lend assistance in the search for records at the COA stockroom.</p> | <p>CY 2012 AAR Finding No. 5.d</p> | <p>Management submitted a bank reconciliation made in the previous year on the said account. It was noted that the amount of ₱21,448,667.49 under the said account was fully accounted as missing time deposit. An adjustment to correct the time deposit balance was already made under JGL 2003-12-121 as a result of the reconciliation made but the amount of ₱21.4 million remained for reconciliation for no supporting documents were found to support the recording of such amount, thus, tagged as missing time deposits.</p> <p>A letter was already sent to the former treasurer regarding the said matter. However, she denied having knowledge of the alleged missing time deposit. Management will forward all the supporting documents to the Legal Department for possible legal action.</p> | <p>Partially Implemented</p> |
| <p><u>Miscellaneous Receivable</u></p> <p>5.e) <i>The collectability of the reported balance of ₱1.72 million as of December 31, 2012 arising from the setting-up of accountability from accountable officers for the loss, through death, of various horses was</i></p> | <p>CY 2012 AAR Finding No. 5.e</p> | | |

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| <p><i>very remote, thus, affected the reliability of the overall reported total assets of the agency as at year-end.</i></p> <p>We recommended that Management require the concerned departments, specifically the LED and PPMD, to gather all remaining available documents such as affidavits of accountable officers and autopsy reports and submit the same to COA for appropriate action. We likewise recommended the reclassification of "Miscellaneous Receivable" to "Due from officers and employees", consistent with NGAS accounting policies for Corporate and COA Circular No. 2004-008 dated September 20, 2004 providing for the Philippine Government Chart of Accounts.</p> <p><u>Missing Peso Cash on Hand</u></p> <p><i>5.f) The amount of ₱856,754.66 continuously remained unaccounted for since CY 2006, thus, affecting the reliability of the overall total assets as of year-end.</i></p> | <p>CY 2012 AAR Finding No. 5.f</p> | <p>The Management replied that on February 19, 1997, the COA, through the resident auditor, had already been provided the necessary request for relief from property accountability for the subject horses as well as the affidavits from concerned personnel testifying on the death of the subject work animals. No reply was received regarding the said request even to date. As to the classification, the Management reasoned that COA had advised them to book the amount as Miscellaneous Receivable pending receipt of COA's reply on the request for relief from property accountability.</p> | <p>Partially Implemented</p> |
| <p>We recommended that Management fortify its initial finding of undeposited dollar collections committed by the former SBMA treasurer by devoting more time in gathering evidences such as copies of official receipts showing the total collections of US\$34,681.71 on July 9, 1994 and bank-validated deposit slips, passbook, snapshots, or bank</p> | | <p>The Management explained that further research revealed that the alleged undeposited collection was found to have been actually deposited to Landbank through telegraphic transfer by a Locator, vice cash collections. However, the transaction was recorded as dollar cash on hand with account number of 8-70-100 vice Cash in Bank. The</p> | <p>Partially Implemented</p> <p>Unlocated documents</p> |

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| <p>statements showing that only US\$115.00 of the dollar collections had been actually deposited. We also advised the Management to pursue a criminal case against employee/s responsible for the shortage if evidence so warrants.</p> <p><u>Due from investors– expanded withholding tax on rents/services</u></p> <p>5.g) The probability of collecting the amount of ₱4,279.08 was very remote, thus, affected the reliability of the overall total assets as at year-end.</p> <p>We recommended that Management include this item among the non-moving and unlikely to be collected accounts which it intends to request for write-off.</p> <p><u>Due from officers and employees</u></p> <p>5.h) The reliability of the account could not be ascertained in view of possible loss of supporting evidences to prove existence of collectibles from various officers and employees</p> | <p>CY 2012 AAR Finding No. 5.g</p> <p>CY 2012 AAR Finding No. 5.h</p> | <p>personnel from the Treasury Department is now locating at the Treasury storage area near the Fire Station at Cubi records of deposits done in 1994. The Management added that after it has ascertained that the amount had been deposited, the next step to be done is to determine how the amount had been utilized. Only after it has ascertained the usage of the amount can the Management effect the appropriate adjustment in the book of accounts. The Management finally mentioned that if it cannot locate the missing Cash on Hand, it will request its Legal Department for assistance so that appropriate action based on COA's recommendation can be pursued.</p> <p>Management will trace the documents pertaining to said transaction and adjust the books if warranted by any supporting documents. Otherwise, the Management will comply with the audit recommendation.</p> | <p>Partially Implemented</p> <p>Still locating the supporting documents</p> |

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| <p><i>amounting to ₱1.064 million.</i></p> <p>We recommended that Management create a team that would identify document references, locate source documents (vouchers and liquidation reports) from the COA stockroom if necessary, account for the unliquidated cash advances, recommend adjustments on the unaccounted balance if warranted and submit results on the performed activity to COA for appropriate action. We informed the Management that such procedure was necessary to establish that the amount of ₱1.064 million either remains a receivable or forms part of the expense account.</p> | | <p>Research was already made on this account. However, no more documents were found to prove that liquidation of cash advances, payments/settlement of overpaid salaries and per diems were made. The balances appearing as receivable from each employee are amounts that remained outstanding after all of the amounts due from each employee was deducted from their final pay. Letters were sent to the concerned employees but no reply was received. In view of the efforts made by the management to reconcile and collect the amounts booked as due from officers and employees, the Management now seeks COA's advice on the procedure to write off accounts due from employees that remain outstanding for more than ten (10) years.</p> | <p>Partially Implemented</p> <p>Management is yet to submit to COA a request for possible write-off of the accounts.</p> |
| <p><i>32. Security deposit amounting to \$325,310.65 and ₱638,171.80 remained unpaid as of August 31, 2012 due to (a) non-payment of additional security deposit of locators amounting to \$8,543.88 and ₱8,080.00, (b) inadequate payment of security deposit amounting to \$173,865.10 and ₱97,220.31, and (c) non-payment of security deposit amounting to \$142,901.67 and ₱532,871.49 in violation of Article II-Consideration of the contract of lease for security deposit.</i></p> <p><i>6.a) Non-payment of additional security deposit amounting to</i></p> | <p>CY 2012 AAR Finding No. 6</p> | | |

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| <p><i>\$8,543.88 and ₱8,080.00.</i></p> <p><i>6.b) Inadequate payment of security deposit amounting to \$173,865.10 and ₱97,220.31.</i></p> <p><i>6.c) Non-payment of security deposit amounting to \$142,901.67 and ₱532,871.49.</i></p> <p><i>6.d) Four locators were not required in their lease contracts to pay security deposits</i></p> <p>We recommended that Management require the lessees concerned to settle immediately their obligations on security deposits. The Management was likewise advised to assure the faithful compliance by locators of the stipulations in the agreement especially the protective clauses for the agency. Action for specific performance may also be resorted to if warranted. We also suggested that security deposits be made a fixed proviso in the lease contracts in order to protect the agency from assuming obligations contracted by lessees. Finally, we recommended that Management require the Accounting Department to re-compute locators' security deposits at escalated rate and, thereafter, prepare billing statements to be served to concerned locators.</p> | | <p>The Account Officers sent the necessary demand letters together with the assessment for payment of the foregoing accounts. Most of the computations made by the COA were on a property basis. Given that the addresses of paid security deposits and advance rentals per locator and deduct the actual payments made to come up with the amount still due. There were differences in the computations.</p> <p>Management noted that in cases of assignment wherein most of the payments made for security deposits and advance rentals were left under the name of the assignor, account officers were advised to communicate with the assignor to determine whether or not previously paid security deposits and advance rentals will be transferred to the account of the assignee to enable us to do the necessary adjustments. There were instances that the lease agreements were renewed/executed under the name of the new assignee and</p> | <p>Partially Implemented</p> <p>Re-computation of due security deposits on-going.</p> |

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| | | the payments for the security deposit were still under the name of the assignor. It is just a matter of transferring from one account name to another | |
| <p>33. Advance rental amounting to \$287,176.72 and ₱213,190.43 remained unpaid as of August 31, 2012 due to (a) non-payment of additional advance rentals of locators amounting to \$7,716.46 and ₱1,092.94, (b) inadequate payment of advance rental amounting to \$144,744.15 and ₱212,097.49, and (c) non-payment of advance rental amounting to \$134,716.11 in violation of Article II-Consideration of the contract of lease for advance rental.</p> <p>7.a.) Non-payment of additional advance rental amounting to \$7,716.46 and ₱1,092.94.</p> <p>7.b) Inadequate payment of advance rental amounting to \$144,744.15 and ₱212,097.49.</p> <p>7.c) Non-payment of advance rental amounting to \$134,716.11.</p> <p>We recommended that Management require lessees with deficiencies in advance rental to settle their obligations at once. The Management was likewise advised to assure the faithful compliance by locators of the stipulations in the agreement to protect the interest and concerns of the agency. Finally, we recommended that management require the Accounting Department to henceforth re-compute and bill</p> | CY 2012 AAR Finding No. 7 | <p>The Account Officers sent the necessary demand letters together with the assessment for payment of the foregoing accounts. Most of the computations made by the COA were on a property basis. Given that the addresses of paid security deposits and advance rentals per locator and deduct the actual payments made to come up with the amount still due. There were differences in the computations.</p> | <p>Partially Implemented</p> <p>Re-computation on-going</p> |

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| locators of the advance rental fees at the escalated rate. | | Management noted that in cases of assignment wherein most of the payments made for security deposits and advance rentals were left under the name of the assignor, account officers were advised to communicate with the assignor to determine whether or not previously paid security deposits and advance rentals will be transferred to the account of the assignee to enable us to do the necessary adjustments. There were instances that the lease agreements were renewed/executed under the name of the new assignee and the payments for the security deposit were still under the name of the assignor. It is just a matter of transferring from one account name to another | |
| <p><i>34. The requirement for performance bond was inconsistently applied in lease agreements with development commitment.</i></p> <p>We recommended that Management consider reviewing its policy on the posting of performance bond by locators or drafting a new one if no such policy is yet available. We suggested that Management identify reasonable imposable rates, taking into consideration the nature and cost of development committed to be introduced and risks to be assumed by locators and the duration of the contract, among others. We likewise suggested that the requirement for performance bond be made a</p> | CY 2012 AAR Finding No. 8 | Management presented the amendments in the performance bond | Partially Implemented |

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| standard provision in the contract involving lease and development of property. | | | |
| <p><i>35. Infractions were committed in the grant and liquidation of cash advances as well as in the bonding of accountable officer in violation of Section 89 of P.D. 1445, Section 5 of COA Circular No. 97-002 dated February 10, 1997, and Section 101(2) of P.D. 1445, respectively.</i></p> <p><i>11.b) Cash advances were not liquidated within the prescribed period in violation of Section 5 of COA Circular No. 97-002 dated February 10, 1997.</i></p> <p>We recommended that Management require the early or timely submission of liquidation documents to give the accounting personnel ample time to review submitted documents, adjust receivable and related expense accounts, and reflect correct balances of affected accounts in the financial statements as of a given date or period. We also explained to the Management that the timely liquidation of cash advance by accountable officer will bar the application of the provisions under Sections 9.2 and 9.3 of COA Circular No. 97-002 which stated that the non-liquidation by the accountable officers of their respective cash advances within the prescribed period shall constitute a valid cause for the withholding of his/her salary and other sanctions.</p> | <p>CY 2012 AAR Finding No. 11</p> <p>CY 2012 AAR Finding No. 11.b</p> | <p>The Management explained that it is actually complying with the audit recommendation. However, they cannot compel some concerned employees particularly those whose contracts of service had been terminated, as in the case of Ms. Llanza and Avilanes, to strictly observe the COA rules. In so far as the cash advance of Ms. Delgado is concerned, the same had been fully settled in October 2012 under JGL 12-10-000084. For Ms. Aguilar, she has no final pay against which her remaining cash advance could be set off. For the other observations, the Management ensured that henceforth, liquidation of cash advance will not be done beyond the set timeline.</p> | <p>Partially Implemented</p> <p>Management exerted all efforts to locate documents in support of the liquidation of cash advance granted to Evelyn Llanza. However, no documents were found.</p> |
| <i>36. Infractions were noted in the procurement and payment of</i> | CY 2012 | | |

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| <p>12.b) The agency erroneously adopted "Shopping" instead of "Small Value Procurement" as the mode of engaging the services of Yuzen Restaurant for the meals of SBMA officials and employees who attended the Midterm Review Strategic Planning Workshop, thus, deprived SBMA the opportunity of receiving possible lower quotations from other qualified service providers, contrary to Section 53.9 of the revised IRR</p> | <p>CY 2012 AAR Finding No. 12.b</p> | <p>Philippines (quotation dated January 27, 2012)</p> <p>SBMA treated the Strategic Planning Workshops as a single continuing activity divided into two (2) parts, the first part held on January 12-13, 2012 in Fontana and the second part held on February 02-03, 2013 in Holiday Inn Clark. The decision to hold the 2012 Strategic Planning Workshop was announced by the SBMA Chairman during the first flag-raising ceremony and first working day of the year, January 02, 2012. Time was of the essence and the strategic planning workshop was long overdue. To ensure maximum concentration and least disturbance, it was decided that the workshop be held away from Subic. For benchmarking purposes and synergy, in addition to accessibility, Clark Freeport was chosen. To abbreviate the process because of time limitations, PDO made a canvass by soliciting the aforequoted price quotations.</p> | |

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| <p><i>of R.A. 9184.</i></p> <p>We recommended that Management explain why it selected “shopping” as the mode of engaging the services of Yuzen Restaurant for the meals supplied during the Midterm Review Strategic Planning. Management was reminded that payment made under a contract awarded not strictly in accordance with the provision of procurement law is irregular under COA Circular No. 85-55A or illegal under COA Circular No. 2012-003 and, therefore, may be disallowed in audit.</p> <p>Moreover, for similar transaction in the future, we recommended that Management require all requesting departments to prepare a cost estimate report listing therein the goods and services requirements with corresponding cost estimate taking into consideration the approved budget for said purpose. The management should also instruct its canvasser to solicit quotations from establishments offering reasonable prices.</p> <p><i>12.c) The total expense of ₱580,550.00 for the meals and hotel accommodation of SBMA officials who attended the 2012 Strategic Plan in Clark Freeport, Pampanga and additional expense of ₱76,500.00 for the meals served to SBMA officials and employees during the Midterm Review Strategic Plan exceeded the budget allocation as disclosed in</i></p> | <p>CY 2012 AAR Finding No. 12.c</p> | <p>The Management explained that SBMA Directors were in attendance, the Midterm Review Strategic Planning was considered a Board activity. Food provisions were arranged in coordination with the staff of the Office of the Corporate Secretary. Per advice of the latter, the Directors expressed their preference for Japanese cuisine, and having submitted the lowest quotation, Yuzen was chosen. However, due to time constraints, the Management was prevented from going through the Small Value Procurement process because the scheduling of the Midterm Review Strategic Planning was done within a very short timeframe, highly dependent on the availability of Board directors.</p> | <p>Partially Implemented</p> |

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| <p><i>the FY 2012 Annual Procurement Plan (APP), contrary to Sections 7.1 and 7.2 of the revised IRR of R.A. 9184 and Section 47 of P.D. No. 1177.</i></p> <p>We recommended that Management explain the reason for incurring expenditures in excess of the budget earmarked for the meals and reimbursement of PDO used during the SBMA's Strategic Planning Workshop and, thereafter, submit the corresponding approved realignment of funds to cover the deficit. Otherwise, the management is requested to collect the amount of ₱157,050.00 from all parties responsible for the overdraft.</p> <p><i>12.d)The expenses incurred in holding the Strategic Planning may be considered "unnecessary" and "extravagant", while meals expense during the Midterm Review Workshop is "excessive", contrary to COA Circular No. 85-55A dated September 8, 1985, as reiterated in COA Circular No. 2012-003 dated October 29, 2012.</i></p> <p><i>12.d.1) The payment of an approximate cost of ₱307,000.00 for room accommodations of SBMA officials and employees fell within the purview of an unnecessary and extravagant expenditure.</i></p> | <p>CY 2012 AAR Finding No. 12.d</p> | <p>The Management, through its Financial Control and Analysis Department, explained that the meals and accommodations served during the subject activity was within the budget of the Planning and Development Office under Other Services (Meals and Reimbursement) for the Strategic Planning Workshop at ₱763,638.00. The Approved Annual Procurement Plan of the agency for CY 2012 also provided the same allotment of ₱763,638.00 for PDO in the summary sheet of Other Services (Meals and Reimbursement).</p> | <p>Partially Implemented</p> |

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| <p>We recommended that Management meticulously and judiciously plan its procurement transaction, bearing in mind that the interest of SBMA is always protected. The Management should always observe the degree of care and concern in the control and disbursement of its funds in order to mitigate undue dissipation of SBMA's already limited resources.</p> <p>We likewise requested the Management to provide reasons for choosing the selected venues despite its costly offer. Sanctions should also be imposed against officials and/or employees who neglect in their respective duties, whether or not actual damages had been caused to SBMA.</p> | | <p>The Management reasoned that venue has everything to do with the success of a planning workshop and that it is but normal to hold planning sessions in venues that are comfortable and which contain the needed amenities. The Management added that the expenses for the Fontana Clark and Holiday Inn Clark strategic planning workshops were reasonable expenses and were not at all extravagant. The venues are neither luxurious nor top of the line. Fontana is, at the most, functional, while Holiday Inn has a comfortable corporate environment.</p> <p>The Management likewise explained that holding the activity in Subic Bay Freeport would expose the participants to too many distractions from their work or staff so as to be able to focus. Meanwhile, the significance of Clark Freeport as the venue rallies behind Clark and Subic to be developed synergistically. Officers from both Freeport authorities therefore benchmark each other's data and programs. Meanwhile, the Management's purposes in holding the second part of the strategic planning in Holiday Inn Clark were:</p> <ol style="list-style-type: none"> 1. To allow the participants to personally experience and feel the difference in having an international chain hotel in the sphere of Clark Freeport and the need for such corporate facilities in Subic. | Partially Implemented |

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| <p>12.e) The payment of hotel accommodations and meal consumptions was not supported</p> | <p>CY 2012 AAR</p> | <p>2. To embark on a marketing initiative that would entice the Holiday Inn Group to operate in Subic Freeport. SBMA has received a proposal to develop in the Waterfront area a hotel of international standards to be operated by the Holiday Inn. That SBMA held its Strategic Planning workshop in Holiday Inn greatly contributed to this effort.</p> <p>The Management pointed out that the meals served during the workshops were served over a period of at least eight working hours per day. The ₱757.65 per person room charge in Fontana is not excessive, rather, it is a very low rate for decent and clean lodging in a resort environment. The ₱1,980.00 per delegate per night rate of Holiday Inn – an international hotel chain- is low when compared to local Subic Hotels to wit:</p> <p>Hotel Twin Sharing Deluxe Subic International Hotel (Delta) ₱6,308.00 ₱4,000.00</p> <p>Vista Marina 4,700.00 3,900.00</p> <p>Lighthouse 7,700.00 9,900.00 Forest View Superior: ₱5,500.00 weekdays; ₱6,600.00 weekends</p> <p>Deluxe: ₱6,700.00 weekdays; ₱7,700.00 weekends</p> | |

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| <p><i>with complete documentation, thus, the reasonableness of the claims and availability of the funds could not be ascertained, contrary to Section 4(6) of P.D. No. 1445.</i></p> <p>We recommended that Management cause the submission of the requested price quotations from three (3) suppliers and the Budget Utilization Request. Otherwise, we informed the management that we would recommend corresponding sanctions against officials or employees who were not faithful in the dispatch of their respective tasks.</p> | Finding No. 12 | The Management stated that all subject hotel accommodations and meal consumptions were supported with complete documentation per Memorandum of the Financial Control and Analysis Department. | Partially Implemented |
| <p><i>37. The validity of claims for meal reimbursements of members of the SBMA Board of Directors from January to July 2012 amounting to ₱54,555.04 could not be ascertained in view of the absence of full disclosure on the purpose for incurring said expenses, contrary to Section 4(2) of Presidential Decree (P.D.) No. 1445 in relation to Section 12 of Executive Order (E.O.) No. 24.</i></p> <p><i>Moreover, the necessity of incurring similar expenses amounting to ₱152,354.82 remained doubtful in view of the failure of the members of the Board of Directors to (1) identify their detailed responsibilities in order to distinguish their duties from those of the management; and to (2) define "business meetings", as may apply to them, thus, had placed the agency's funds under the control and discretion of the members of</i></p> | CY 2012 AAR Finding No. 13 | | |

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| <p><i>the Board who may tend to exploit its use by indiscriminately charging meals expense under the guise of "business meeting".</i></p> <p><i>13.a) Meal reimbursements worth ₱54,555.04 were incurred without full disclosure of purpose, thus, rendered the validity of the claims doubtful and uncertain.</i></p> <p>We recommended that Management require additional information from the concerned Directors on the purpose of the visits of various guests as listed in the tables above and, thereafter, inform COA of obtained information to guide it in rendering decision on whether to allow or disallow the payments made. We likewise recommended that Directors provide full disclosure on the purpose of spending for meals of visitors in their subsequent reimbursements to avoid similar audit findings in the future. The Accountant was advised to exercise pre-audit of future claims of the members of the Board pursuant to COA Circular No. 2011-002 dated July 22, 2011.</p> | <p>CY 2012 AAR Finding No. 13.a</p> | <p>Management submitted individual justifications of the concerned Directors for their reimbursements that were observed to be either lacking sufficient information or of doubtful validity. The Management likewise committed to discuss with the Board of Directors the need to provide complete information on the official and public purpose of meetings in order to substantiate the reimbursement of meal expenses.</p> | <p>Partially Implemented</p> |
| <p><i>13.b) Meal expenses amounting to ₱145,478.76 were incurred by Directors in calling/attending business meetings which management could have handled at minimal or no cost to SBMA.</i></p> <p>We encouraged the members of the Board of Directors to draft, finalize, promulgate and adopt a</p> | <p>CY 2012 AAR Finding No. 13.b</p> | <p>The Management, through the reply of the concerned Directors, explained that in</p> | <p>Partially Implemented</p> |

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| <p>manual incorporating therein the detailed responsibilities of the members of the Board acting individually or as part of the collegial Board or committees to which they respectively belong. This was advised in order to inform the Accounting Department and the Commission on Audit on the respective duties and responsibilities of the members of the Board so that claims for reimbursements of expenses incurred in the discharge of their duties may be processed and accordingly allowed in audit.</p> | | <p>incurring the questioned meal expenses, the Directors were acting either:</p> <p>a) as an initial point of contact for locator or stakeholder concern, after which they would properly turn over or refer the matter to the appropriate member of management or responsible department; or</p> <p>b) as a Chairman of a Board Committee with respect to a specific committee project or with respect to a specific Board initiative.</p> <p>The Management pointed that it is within the duties and responsibilities of Directors to act as an initial point of contact or focal point for a locator or stakeholder concern if the concern was directly raised to them. SBMA action on such a concern is quicker and more effective if the parties can be initially brought together by a director and the concerns discussed first hand so that appropriate direction or guidance can be passed on to the concerned management unit.</p> <p>In the second case, being as it were a specific Board Committee Project or Board Initiative, it would not be feasible or effective to simply delegate the matter to Management since being ad hoc in nature, these Committee Projects and Board Initiatives cut across and involve several management units simultaneously, and it would be</p> | |

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| | | <p>simply being more effective to coordinate action at the Board Committee level. To explain, the SBMA Board of Directors has four standing Board Committees pursuant to Section 11 of its By-Laws, in addition to two other special committees. The scope and mandate of these committees cut across management departments, and it is the committees and the members thereof that are directly accountable for fulfilling their scope and mandate, as well as in carrying out their committee projects and board initiatives. Accordingly, direct action and coordination by the Directors who are members of these board committees, pursuant to their committee mandates or committee projects, are within their authority and need not be delegated to management.</p> <p>Additionally, SBMA Directors need to conduct meetings with experts, resource persons and political contacts, etc. However, it has no budget for engaging any of these people that can provide needed insights, expertise, opinions and political support, meetings over meals when necessary is what is undertaken to fulfill the oath they took upon assumption of their office to work for the best interest of the Agency. Informally, the Board has adopted a cap of P30,000 per month for such business meetings which the Agency considers appropriate and actually quite minimal considering the time and effort</p> | |

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| <p><i>13.c) The exigency of holding business meetings attended seemingly by only two Directors could not be vouched, thus, casting doubt on the necessity of conducting said meetings and on the propriety of charging expenses against the agency's funds.</i></p> <p>We strongly encouraged the members of the Board of Directors to define "business meetings" as may apply to them and to consider the suggestion of the TFCC to prescribe the maximum reimbursable amount per month which can be claimed by them. We likewise recommended to the members of the Board, as fiduciaries of the State, to supply information, in their present and future claims, as would prove the exigency and necessity of holding small meetings apart from the regular board, committee and caucus meetings.</p> | <p>CY 2012 AAR Finding No. 13.c</p> | <p>in resolving directions of the Agency as a whole and in terms of individual programs and projects being undertaken or planned to be undertaken. Management shall take up with the Board of Directors the recommendation that a manual be adopted to detail the responsibilities of the members of the Board acting individually or as part of a Board Committee.</p> <p>The Management expressed that being public officials, SBMA Directors are accorded the presumption of regularity in the performance of their duties and this presumption applies even when there are only two directors in attendance at a business meeting. As it were, the SBMA Board meets only twice monthly, with Board Meetings lasting between 9:30am to 4:00pm. During this brief amount of time the Board is expected to act on an Agenda that is on average 5 pages long, and is usually accompanied further by an Addendum. While the Directors freely and exhaustively discuss the merit of each agenda item, there are limits on both time and practicality, with certain agenda</p> | <p>Partially Implemented</p> |

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| | | <p>items taking more than a meeting to resolve due to the complexity and difficulty of the issues involved. It is thus necessary, and even desirable in this case, for Board members to meet outside of regular board meetings, either in caucus as a whole or in smaller groups as in their discretion they see fit, to further discuss and debate the issues involving Board matters so that the official Board Meeting proceeds smoothly and efficiently, thereby making government action more prompt and responsive.</p> <p>Nevertheless, Management do agree that the exigency and necessity of meetings, in the spirit of transparency, should be established by the members of the Board when claiming for reimbursements to ensure that public funds are duly accounted for. They shall take this up with the Board of Directors.</p> <p>Based on previous Board discussions, the BOD are seriously considering setting, by board resolution, a monthly cap on reimbursements for business meetings as well as specifically defining what constitutes a "business meeting" for purposes of reimbursable expenses. They shall update our office of developments on this matter.</p> | |
| 38. <i>The SBMA management unlawfully allowed the fueling of private vehicles owned or borrowed by ratable SBMA officials and consultant, in violation of Section 340 of the</i> | CY 2012 AAR Finding No. 14 | | |

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| <p><i>Government Accounting and Auditing Manual (GAAM), Volume I, as reiterated in Section 3.1.1.8 of COA Circular No. 96-004.</i></p> <p>We recommended that Management:</p> <ol style="list-style-type: none"> 1. Immediately stop the practice of issuing fuel to privately owned or leased vehicles. Instead of issuing fuel, pay the monthly transportation allowance to entitled officials who are not issued SBMA vehicle 2. In cases where private vehicles are used to carry out official duties, the COA rule authorizes the reimbursement of the equivalent cost of the customary mode of transportation, NOT the cost of gasoline, diesel, fuel refilled or issued for the private vehicle. 3. Explain why Manager Rementilla was paid his full ₱78,000.00 transportation allowance and concurrently was issued 668.46 liters of fuel for his private vehicle. 4. Explain why Manager Llamas was issued fuel in excess of the allowable monthly fuel allocation of 150 liters. Records showed that in January, March, April, August, and September 2012, fuel was issued for her private vehicle with plate number TOU 185 at 250, 290, 240, 286.72, and 180 liters, respectively. | | <p>Payment "under protest" was made by Atty. Jocelyn G. Alvarado, SDA-Regulatory Group, amounting to ₱1,535.47 covered by OR No. 01-100835 representing the amount of fuel issued to her private vehicles used during her official travels to Manila for meetings and conferences. Further, she requested that her transportation allowance be paid. The government vehicle (SHT 303) officially assigned to her was requested to be officially transferred to the Regulatory Monitoring Unit (RMU) for the inspection of locators in the renewal of the Business Permit to Operate.</p> <p>Mr. Kenneth G. Rementilla, Business and Investment Department for Leisure (BID-Leisure) – Department Manager, replied that the service vehicle assigned to the BID-Leisure, a Mitsubishi Adventure with Plate No. SFJ-715 is already more than 12 years in service and is consistently in either a state of repair or unserviceability and is a smoke-belcher. Said vehicle is no longer used for long distance travel such as official business trips to Clark, Bataan and Manila. Thus, a new service vehicle replacement has been requested in 2007. Since there is no new service vehicle</p> | <p>Partially Implemented</p> |

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| <p>5. Explain why Manager Cruz was issued fuel in excess of the allowable monthly fuel allocation of 150 liters. Records showed that in December 2012, 200 liters of fuel was issued for this private vehicle with plate number ZMD 376. Also, the maximum number of liters of fuel a department manager is entitled to is 1,800 liters only, computed at 150 liters monthly. Records showed that for CY 2012, Manager Cruz received 2,713.82 liters, hence, an excess of 913.82 liters. Please explain why so.</p> <p>6. Explain why Manager Zerrudo was issued fuel in excess of the allowable monthly fuel allocation of 150 liters. Records showed that, except in January 2012, the number of liters of fuel issued for the vehicle with plate number BEF 274 exceeded the 150 liters' limit. For CY 2012, his actual fuel consumption reached 2,665.89 liters while the limit is only 1,800.00 liters, hence, an excess of 865.89 liters of fuel. Please explain why so.</p> | | <p>issued, Mr. Rementilla was forced to use his personal vehicle on all meetings held outside of the Freeport. However, Mr. Rementilla is willing to pay the value of the 668.46 liters of fuel he consumed in excess of that allowed but for a period of three (3) years to give him enough salary left to pay for the wear and tear of gasoline expenses of his personal vehicle.</p> <p>Ms. Armina Belleza C. Llamas, Public Relations Department (PRD) Manager, replied that apart from the media relations mandate of PRD, they also provide community assistance via outreach activities, livelihood trainings, and other community development programs to sixteen (16) stakeholder communities. Since their department vehicle is no longer safe and reliable for transport outside of the Freeport and there are no available service vehicles that could be provided by the Maintenance and Transportation Department, the last resort for the PRD to be able efficiently and effectively perform its duties was to seek the Chairman's guidance and approval to utilize private vehicles for community visits, interface activities, and in going to and from Manila for official assignments. The months of April, August and September referred to the period during which Congress and Senate hearings were at its height due to "rice smuggling" and "toxic waste dumping" issues. Her</p> | |

| Observations and Recommendations | Ref. | Management Comments | Status and Reason for Partial/Non-Implementation |
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| | | <p>primary function is to provide technical and media assistance to the Chairman and Administrator during hearings. After hearings, she touched base with Manila media contacts to solicit their support in helping divert the public's attention to positive news in the Freeport instead of highlighting crisis situations involving allegations of smuggling and environmental issues.</p> <p>Mr. Marlo O. Zerrudo, Information & Technology Department (ITD)-Officer-in-Charge, certified that his personal vehicle with Plate No. BEF 274 had been used for official business of the ITD since October 3, 2011 to present. The ITD has two service vehicles that are under repair at the Transportation Department. He lends his personal vehicle so that there will be no reasons for his personnel not to get the job done on time and not to act on job orders expeditiously. The lending of his vehicle entailed the use of gasoline allowance allocated for the ITD. Since October 2011 up to September 2012, the ITD was unable to issue trip tickets for the use of said personal vehicle due to rule oversight. Only in October 2012 to present did ITD begin recording the official trips of his personal vehicle.</p> | |
| 39. Deficiencies were noted in the appropriateness of certain terms and conditions of consultancy agreements and in the | CY 2011 AAR Finding No. 2 | | |

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| <p><i>implementation thereof, contrary to CSC Memorandum Circular No. 06 s. 2005, Section 15 of Rule XIII of the Omnibus Rules Implementing Book V of Executive Order 292, and the Revised IRR of R.A. 9184 on the procurement of consultancy services.</i></p> <p><i>15. b) The term of the contract agreement of 13 office consultants exceeded the term of the appointing head of the procuring entity, contrary to Section 53.7 of the Revised Implementing Rules and Regulations (IRR) of R.A. 9184, as amended under GPPB Resolution No. 06-2009, resulting in the payment of consultancy fees amounting to ₱1,095,981.48 without valid/legal basis.</i></p> <p>The management should require the restitution of the amount of ₱1,095,981.48 and the monetary equivalent of fringe benefits enjoyed by the consultants from September 18, 2011 to December 31, 2011.</p> | <p>CY 2011 AAR Finding No. 2.b</p> | <p>Management commented that Mr. Roberto V. Garcia, SBMA Chairman and Head of the Agency, acquiesced to the retention of the services of these 13 consultants as their services were deemed necessary and essential. The consultants have rendered services and have been religiously performing their tasks in good faith. The Office of the Chairman has been accepting monthly accomplishment reports and has been endorsing the payment for their continued service for the questioned period.</p> | <p>Not implemented. Disallowance under appeal.</p> |
| <p><i>40. Cash advances for various purposes totaling ₱635,584.57 granted to SBMA officers and employees remained unliquidated as of December 31,</i></p> | <p>CY 2011 AAR Finding No. 4</p> | | |

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| <p><i>2011, in violation of Section 89 of P.D. 1445 and COA Circular No. 97-002 dated February 10, 1997, thus, the validity and regularity of the disbursements thereon could not be ascertained.</i></p> <p>The management should:</p> <p>a) require the Accounting Department to implement Section 5.9 of COA Circular No. 97-002 regarding the withholding of the salary of accountable officers who failed to liquidate their cash advances within the prescribed period; and</p> <p>b) implement the fiscal responsibility rule of liability sharing by all those who approved the payment of the cash advance to accountable officers/persons who have retired, resigned, or separated from office without fully settling their cash advances.</p> | | <p>Management commented that of the ₱181,990.90 unliquidated prior years' cash advance, a total of ₱46,817.31 had been liquidated as of February 27, 2012. The remaining balance still for liquidation is ₱134,573.59. On the other hand, the unliquidated current year's cash advance of ₱453,593.67 was reduced to ₱140,475.60.</p> | <p>Partially Implemented</p> <p>Only the cash advance of Evelyn Llanza remained unliquidated.</p> |
| <p><i>41. Inappropriate expenditures of ₱22,889.78 were charged to the extraordinary and miscellaneous (EME) account in violation of COA Circular No. 2006-001 dated January 3, 2006, while EME reimbursements of ₱21,983.50 did not have sufficient documentation to establish their regularity.</i></p> <p><i>17.a) EME reimbursements of ₱19,961.21 for the celebration of SBMA Christmas Party were unnecessary, as defined in Section 163 of the Government Accounting and Auditing Manual Volume I, and therefore, may be disallowed in audit as</i></p> | <p>CY 2011 AAR Finding No. 6</p> <p>CY 2011 AAR Finding No. 6.a</p> | | |

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| <p><i>provided in Section 10 of COA Circular No. 2009-006, dated September 15, 2009.</i></p> <p>The management should direct the persons liable to settle immediately the said disallowance. Audit disallowances not appealed within six months from receipt of the notice shall become final and executory as prescribed under Sections 48 and 51 of P.D. 1445.</p> | | <p>Management filed an appeal to COA RO3 on Feb. 23, 2012.</p> | <p>Partially Implemented</p> <p>Management filed an appeal to COA RO3 on Feb. 23, 2012.</p> |
| <p><i>42. Disallowances amounting to ₱9,040,000.00 remained unsettled as of December 31, 2011, contrary to Section 5.4 of COA Circular No. 2009-006 dated September 15, 2009.</i></p> <p>The management should cause the persons liable to settle the disallowances as provided for in Section 5.4 of COA Circular No. 2009-006 dated September 15, 2009.</p> | <p>CY 2011 AAR Finding No. 7</p> | <p>Petition COA RO3 Decision No. 2012-07 dated Feb. 3, 2012 denied the request of appeal and waiting for decision for second Petition for review dated June 19, 2012</p> | <p>Partially Implemented</p> <p>COA RO3 Decision No. 2012-07 dated Feb. 3, 2012 denied the appeal of the Management. A Petition for Review was filed on June 19, 2012.</p> |
| <p><i>43. Information technology equipment, software, supplies and materials purchased from the Procurement Service-Department of Budget and Management (PS-DBM) in CY 2007 to 2010 amounting to ₱2.6 million have remained undelivered, depriving the Authority from the benefits of investing in upgraded information technology</i></p> | <p>CY 2010 AAR Finding No. 1</p> | | |

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| <p><i>equipment and rendering the delivered servers and software worth ₱21.4 million useless because the supplier of the PS-DBM has not complied with the installation and configuration of the servers and the completion of the migration services of SBMA's Integrated Financial Management System to a web-enabled system.</i></p> <p>The management should</p> <ul style="list-style-type: none"> • Take a serious stance in following up and in monitoring the completion of all partially delivered purchase. • Consider taking available legal remedies including the imposition of liquidating damages against the supplier of PS-DBM to enforce the completion of all remaining deliverables on the purchase of servers and Oracle software • Re-assess which goods and services are to be ordered or procured in the future from the PS-DBM and determine whether it has the better competency to undertake the procurement of non-common goods and services requiring technical expertise • Plan out an alternative to made the delivered servers and the Oracle software operational in case the PS-DBM or its supplier could no longer address the remaining critical deliverables. | | For monitoring | <p>Partially Implemented</p> <p>For follow up/ monitoring</p> |
| <p><i>44. Periodic monitoring/reconciliation of delivered items procured from the PS-DBM was not regularly observed by the</i></p> | <p>CY 2010 AAR Finding</p> | | |

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| <p><i>Accounting Department and the Procurement and Property Management Department as required in COA Circular No. 80-124 dated January 18, 1980m resulting in the overstatement of the Due from DBM-Procurement of Supplies account by ₱41.47 million.</i></p> <p>The management should</p> <ul style="list-style-type: none"> • The accountant to record the delivered IT Equipment, printers and software amounting to ₱26.3 million • The accounting office to reconcile its record of deliveries with that of the property at least quarterly • The property office to transmit promptly to the accounting office the pertinent delivery and inspection documents upon completion of these tasks for the recording of the delivered items • The property office to conduct monitoring of deliveries of all items procured from PS-DBM at least quarterly, to ensure timely completion of deliveries and correction of errors. | No.2 | The accounting department is still waiting documents from PPMD. | <p>Partially Implemented</p> <p>The accounting department is still waiting documents from PPMD.</p> |